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OVERSIGHT ACTIVITIES OF THE EXPORT-IMPORT BANK

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

ON

THE PROBLEM OF U.S. EXPORTS LOST AS A RESULT OF OFFICIALLY SUBSIDIZED EXPORT CREDITS PROVIDED BY MAJOR FOREIGN COMPETITORS, AND THE ROLE AND PERFORMANCE OF THE EXPORT-IMPORT BANK IN PROVIDING COMPETITIVE FINANCING FOR U.S. EXPORTS TO COUNTER AND EVENTUALLY ELIMINATE SUCH OFFICIAL FINANCING

FEBRUARY 5, 1985

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OVERSIGHT ACTIVITIES OF THE EXPORT-IMPORT BANK

TUESDAY, FEBRUARY 5, 1985

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The committee met at 9:30 a.m., in room SD-538, Dirksen Senate Office Building, Senator John Heinz presiding.

Present: Senators Heinz, Gorton, Mattingly, Hecht, Proxmire, Cranston, Dodd, Sasser, and Lautenberg.

OPENING STATEMENT OF SENATOR HEINZ

Senator HEINZ. The committee will come to order.

There have been some questions raised about where the new members of the Senate Banking, Housing, and Urban Affairs Committee are, and the answer is that the Senate has not yet completed its process of naming members to committees, either on the Republican or on the Democratic side. This being a standing committee of the U.S. Senate, it continues whether of not new members are named. Our present membership is our membership in the 98th Congress. I am advised by staff that this has been an issue of some concern to people who follow those things, but it is of more concern to me whether Senator Garn comes back from outer space because he is the chairman of this committee and wherever he may be he sends us his very best regards. Senator Hecht, Senator Proxmire, and I have assured him that we have no desire to be the chairman of the Senate Banking Committee, at least this year.

Today, the committee begins its review of the activities of the Export-Import Bank, an institution which is critical to America's export performance. In view of last week's announcement that the 1984 trade deficit totaled a record $123 billion, the committee could scarcely have chosen a more appropriate topic with which to begin its work this year.

Obviously, the value of the dollar is a key element in the deficit, as previous hearings by the subcommittee have demonstrated. But exchange rates are not the only problem. We could all easily compile a long list of obstacles to American exporters.

Today, however, we will focus on the problem of U.S. exports lost as a result of the officially subsidized export credits provided by our major foreign competitors. Despite the disadvantages of an overvalued dollar, American exporters could often successfully sell their products and services abroad were it not for the fact that their foreign competitor is offering a financing package subsidized

by his or her government at interest rates and terms more favorable than what our exporter can obtain commercially. In major capital purchases this credit subsidy can substantially outweigh considerations of quality, price, and delivery.

When a U.S. exporter faces that kind of competition, he usually turns to the Eximbank, which is specifically required by Congress to provide fully competitive financing. Yet despite that mandate and despite the record—and growing—trade deficit, the green eyeshade people at the Office of Management and Budget have proposed that Eximbank abandon the direct lending program. In effect, it appears OMB has turned a blind eye to our trade problems and has pulled the rug out from under American exporters.

And where is the American exporter to go with the Eximbank out, as proposed, of the direct lending business? Well, frankly, most likely, overseas where competitive financing is available; relocation overseas more specifically. What it will mean is the export not of American products and services but of American jobs and growth.

The irony, of course, is that this administration has opposed proposals for so-called industrial policy. But OMB's recommendation for eliminating Eximbank's direct credit program amounts to an industrial policy in reverse. Not only would they have us worsen our credit balance in export jobs elsewhere, OMB would do the very opposite of targeting our growth industries for increased development; namely, they would eliminate the very tools those industries use to defend themselves when they are targeted by our international competitors.

Now to the administration's credit, it has made substantial progress toward reducing the subsidy element of officially supported export credits. Rates on loans to developed countries are roughly at market conditions. But rates on exports to less-developed countries [LDC's] where most of Government-backed financing is directed, is still permitted at levels several hundred basis points below market.

I would like to hear from the administration how, in these areas, where mixed credits are also a problem, that Eximbank direct credit support can be ended if we are not to surrender our position in these markets.

It seems to me that the will of Congress regarding competitive mandate for the Bank is rather clear. In 1983, the Congress explicitly and unmistakably mandated the Bank to provide U.S. exporters with loan support that is fully competitive in all of its terms. Yet the OMB recommendations would drive the Bank into violation of the law and drive U.S. business abroad.

OMB has proposed what is known as an interest rate buydown as a substitute for the Eximbank direct credit program. I, for one, am completely mystified as to how an interest rate buydown can possibly take the place of the direct lending program. First of all, it appears to neglect one of the most powerful tools available to the Bank to combat predatory credits—its ability to go out on term on its loans, the so-called derogate on terms, which no other country is able to match. And, in any event, would any U.S. commercial bank be willing to offer more than a 6-year term for export sales, while the standard term allowable under the arrangement is 8 to 10 years?

Second, why would Congress agree to a program that amounts to a direct transfer payment from the Treasury to U.S. banks, particularly when better methods of defending U.S. exports are available and have been used successfully for years? The fact that the amount budgeted by OMB for such a program appears to fall far short of the needs of our exporters suggests that this is hardly a serious proposal.

In conclusion, let me make a brief comment about the pernicious practice of mixing official export credit with foreign aid, a practice known as mixed credits. This is one of the areas where the United States, in spite of legislation mandating otherwise, has stayed out of the competition. Not surprisingly, it is also the area where we have had the least success in our negotiations. And I suspect we will continue to fail if we pull our last bargaining chip off the table, as I believe the interest rate buydown provision as a substitute for the Eximbank direct credit program would do.

I would very much like to hear what effective counter to foreign mixed credits would be available if we were to terminate unilaterally our own direct credit program and replace it with a completely unfunded interest rate subsidy program. Talk about an empty war chest. If this isn't unilateral surrender to the Japanese trading companies and others, what is?

I believe the committee's goal and the administration's goal really do remain the same; namely, to eliminate subsidies and to restore market conditions to the international export credit financing market. Working together we have made considerable progress with the international arrangement and we have made it through our war chest—our deep pockets, as Tim McNamar has said—and our willingness to match foreign subsidies. I believe that same strategy is the right one in the fight against mixed credits. OMB has apparently not learned that lesson, and in the process would destroy one of our best weapons in the fight to right our trade balance—the Eximbank.

[Complete prepared statement follows:]

STATEMENT BY SENATOR JOHN HEINZ

Today the committee begins its review of the activities of the Export-Import Bank, an institution which is critical to America's export performance. In view of last week's announcement that the 1984 trade deficit totaled a record $123 billion, the committee could scarcely have chosen a more appropriate topic with which to begin its work this year.

That $123 billion almost doubles the previous record U.S. trade deficit, set only the year before. Worse, the deficit will be even greater in 1985.

Obviously, the value of the dollar is a key element in the deficit, as previous hearings by the International Finance and Monetary Policy Subcommittee have demonstrated. But exchange rates are not the only problem. We could all easily compile a long list of obstacles to American exporters. This committee has sought to remove many of those obstacles in the past 8 years, and I am certain we will continue that effort in this Congress.

Today, however, we will focus on the problem of U.S. exports lost as a result of the officially subsidized export credits provided by our major foreign competitors. Despite the disadvantages of an overvalued dollar, American exporters could often successfully sell their products and services abroad were it not for the fact that their foreign competitor is offering a financing package subsidized by his government at interest rates and terms more favorable than what our exporter can obtain commercially. In major capital purchases this credit subsidy can substantially outweigh considerations of quality, price, and delivery. In 1982 Under Secretary of Commerce Lionel Olmer referred to 11 major sales lost or jeopardized by subsidized

financing. Their export value was over $1.1 billion, representing almost 35,000 jobs. The Commerce Department's own survey of its district export councils listed financing as one of exporters' most important problems.

When a U.S. exporter faces that kind of competition, he usually turns to the Eximbank, which is specifically required by Congress to provide fully competitive financing. Yet despite that mandate and despite the record—and growing—trade deficit, the green eyeshade people at the Office of Management and Budget have proposed that Eximbank abandon the direct lending program. In effect, OMB has turned a blind eye to our trade problems and has pulled the rug out from under American exporters.

And where is the American exporter to go with the Eximbank out of the direct lending business? Most likely overseas, where competitive financing is available. That is a totally unacceptable alternative to me, as a Senator from a major exporting State, and to the Congress as a whole. Over the long term it would mean the export, not of products and services, but of jobs and infrastructure.

This administration has opposed proposals for a so-called industrial policy. But OMB's recommendation for eliminating Eximbank's direct credit program amounts to an industrial policy in reverse. Instead of promoting exports and job creation here at home, the bottom line on OMB's position is that we both worsen our trade balance and export jobs elsewhere. Instead of targeting our growth industries for increased development, they would eliminate the tools those industries use to defend themselves when they are targeted by our competitors. If we follow that path for long, we will lose them.

To the administration's credit, it has made substantial progress toward reducing the subsidy element of officially supported export credits. Rates on loans to developed countries are roughly at market conditions. But rates on exports to lesser developed countries, where most of government-backed financing is directed, is still permitted at levels several hundred basis points below market. It is in these areas, where mixed credits are also a problem, that Eximbank is badly needed if we are not to surrender our position in these markets.

I would remind OMB and the Eximbank that the will of the Congress is clear on this matter. In 1983 we explicitly and unmistakably mandated the Bank to provide U.S. exporters with loan support that is fully competitive in all of its terms. That is not just a good idea; it is the law. Congress has clearly decided that we are not to lose export markets due to foreign government-subsidized export credits. Yet the OMB recommendation would drive the Bank into violation of the law and drive U.S. business abroad.

OMB has proposed what is known as an interest rate buydown as a substitute for the Eximbank direct credit program. I, for one, am completely mystified as to how an interest rate buydown can possibly take the place of the direct lending program. First of all, it appears to neglect one of the most powerful tools available to the Bank to combat predatory credits—its ability to go out on term on its loans, which no other country is able to match. Would any U.S. commercial bank be willing to offer more than a 6-year term for export sales, while the standard term, allowable under the Arrangement is 8 to 10 years? Moreover, the amount budgeted by OMB for such a program falls far short of the needs of our exporters, suggesting this is hardly a serious proposal.

Second, why would Congress agree to a program that amounts to a direct transfer payment from the Treasury to U.S. banks, particularly when better methods of defending U.S. exports are available and have been used successfully for years?

Finally, let me make a brief comment about the pernicious practice of mixing official export credit with foreign aid, a practice known as mixed credits. This is one of the areas where the United States, in spite of legislation mandating otherwise, has stayed out of the competition. Not surprisingly, it is also the area where we have had the least success in our negotiations. And I suspect we will continue to fail if we pull our last bargaining chip off the table. We wouldn't do that in Geneva at the arms talks, and we shouldn't do it in Paris at the OECD export credit negotiations.

Yet no effective counter to foreign mixed credits would be available if we were to terminate unilaterally our own direct credit program and replace it with an interest rate subsidy program, an empty war chest if there ever was one.

Today's witnesses will examine what the Eximbank has been doing to comply with the law and what its likely needs are if it is to pursue aggressively the mandate Congress gave it in 1983.

I believe the committee's goal and the administration's goal are the same—to eliminate subsidies and to restore market conditions to international export credit financing. Working together we have made progress with the International Arrangement, and we have made it through our war chest—our deep pockets, as Tim

McNamar has said—and our willingness to match foreign subsidies. I believe that same strategy is the right one in the fight against mixed credits. OMB apparently has not yet learned that lesson, and in the process would destroy one of our best weapons in the fight to right our trade balance—the Eximbank.

Senator HEINZ. At this time I'd like to recognize the ranking minority member of the committee, Senator Proxmire.

OPENING STATEMENT OF SENATOR PROXMIRE

Senator PROXMIRE. Thank you, Mr. Chairman.

Mr. Chairman, I am going to make a statement now that disagrees with most of what you said, but I first want to commend you for scheduling this oversight hearing on the Export-Import Bank. We all need to know how the bank is operating in helping our exporters compete for sales in a very difficult export market. I understand that there will soon be other hearings on this issue. We will then have a chance to hear from other witnesses on these issues—including the Treasury Department and the GAO. The latter organization, as you know, has serious concerns about the Bank's financial condition.

I commend you, as well, Mr. Chairman, for having this hearing so soon after the President submitted his 1986 fiscal year budget request. That budget calls for an elimination of the Export-Import Bank's direct loan program. The Bank will establish a new program to buy down interest rates on export loans made by the private sector to minimum OECD consensus levels, where necessary, to counter subsidized foreign competition.

If the Bank stops making direct loans and instead makes subsidy payments to banks it would disburse less money. That would count as reduced Federal spending and the budget deficit would be smaller. But much more important, because I recognize that that's essentially a bookkeeping gimmick, Congress would assume the responsibility it should have each year in deciding the size of export subsidies and not try to conceal them when we actually have them.

In sending up his budget calling for spending cuts in many cherished programs, President Reagan notes:

> There will be substantial political resistance to every deficit reduction measure proposed in this budget. Every dollar of current Federal spending benefits someone, and that person has a vested self-interest in seeing those benefits perpetuated and expanded.

I think the President is right. It shouldn't surprise us if many of the witnesses before us today oppose the President's proposal to eliminate the Export-Import Bank's direct loan authority. We will, I am sure, hear witnesses tell us that it is essential the Bank's authority be expanded because our trade deficit has grown to truly astronomical numbers. We will be told that we have to expand export subsidies in order to help reduce our trade deficit. Frankly, I can't think of anything more contradictory than for us to subsidize an operation that will benefit foreign consumers at the cost of our taxpayers. Two years ago Mr. Draper told us that the Reagan administration had been largely successful in its effort to do away completely with the element in export credit financing.

Our massive trade deficits are not caused by a lack of export subsidies. We heard testimony on this point last June when Senator Heinz' subcommittee examined the reasons for our growing trade

deficit. Martin Feldstein, the Chairman of the President's Council of Economic Advisers, told us the trade deficit existed primarily because the real value of the dollar had increased about 45 percent relative to an average of the currencies of other industrial countries in just the past few years. This rapid increase in the value of the dollar, Dr. Feldstein told us, was caused by massive increases in the Federal budget deficit. He stated that the remedy to our trade deficit is the reduction of our Federal budget deficit.

In March 1984, Ambassador Brock, the President's Special Trade Representative, told the Senate Finance Committee that "reductions in future Federal deficits are essential to any improvement in our trade account."

But getting our Federal budget deficit under control will not be an easy task. Each group benefiting from a program wants it exempted from any budget cuts. For example, the proponents of keeping or expanding the Eximbank's direct loan authority keep telling us that the Bank is completely self-sufficient and doesn't cost the taxpayer a penny. I hope we can lay that misconception to rest in this series of oversight hearings. Let me begin to do that this morning.

The Congress determines for each fiscal year the total amount of direct customer loans the Bank can authorize, and the total dollar amount of guarantees and insurance it can agree to. These figures constitute the operating authorization levels for the Bank in that fiscal year. The Bank's net cash flow in any given year is the difference between the Bank's estimated revenue—that is, all the money that comes in from repayments of previous customer loans, interest on previous customer loans, receipts on fees, insurance premiums, and claim recoveries—and, on the other hand, the Bank's estimated disbursements—actual loans, claims paid on guarantees and insurance, interest paid on Eximbank borrowings, and administrative expenses. During the first 32 years of its existence the Bank was a profitable operation as it was able to charge more interest on loans than it paid for its borrowings. Since 1966, however, the Bank had generally had a negative spread between the average interest rate on its portfolio and the average rate of outstanding debt. Still the Bank was able to show a profit each year until 1982 because the earnings on its reserves and original capital were sufficient to offset losses due to the negative spread.

Since 1982, the Bank has been losing money at an increasing and alarming rate. In 1982 it lost $160 million; in 1983 it lost $247 million, and this past year it lost $343 million. The President's budget projects $395 million in losses next year and $460 million the year after.

In March 1983, Chairman Draper noted that the Bank's losses were caused in part because the Bank was "still paying more for its money than it was charging." Another important factor was increased claims on its insurance and guarantee funds. In 1983, Mr. Draper said that the Bank's exposure was $36 billion—and a large portion of that was with LDC's. He stated that in 1983 the Bank was projecting $500 million in claims which the Bank would pay from its $2 billion reserve.

In April 1984, the GAO claimed that the Bank's total equity base was $1 to $1.5 billion less than shown on the Bank's books due to

the uncollectibility of loans made by the Bank. If the GAO is correct, the Bank's net worth in 2 or 3 years will be nothing or next to nothing. Even if the GAO is wrong, we can see the Bank is going broke.

The Bank's deteriorating equity position led me to introduce a bill requiring the Bank to maintain a minimum level of capital stock and retained earnings of $2 billion. My bill authorized the appropriation of funds needed to enable the Bank to comply with this capital requirement. In a September 17 letter, commenting on my bill, Chairman Draper said it was not needed to help the Bank maintain its credibility, "since all obligations of the Bank are obligations for which the full faith and credit of the U.S. Government is pledged."

Chairman Draper believes the Bank can continue to lose money because ultimately it has a claim on our taxpayers' dollars. How about that? Isn't it up to us in the Congress to protect the taxpayers? Let's keep these facts in mind when users of the Bank state its activities should be expanded because it will help exporters and the Bank is self-sufficient.

The Congressional Budget Office endorsed my bill as a way of improving budgeting oversight and control of the Eximbank. They also endorsed the concept found in this year's proposed budget, that is, a proposal for stating openly the subsidies inherent in making direct loans at below-market rate levels. Such an open approach makes clearer to all of us the real cost of this program.

One other factor that we should keep in mind is one made by a witness before this committee in 1982. That is, when we subsidize Boeing's sales of aircraft abroad, we are aiding foreign airlines at the expense of our carriers. U.S. airlines are losing overseas routes to foreign airlines able to obtain new aircraft at below-market rates from the Eximbank and its European counterparts. Last year Pan Am, which lost $49.8 million in 1984, complained bitterly that the Bank was subsidizing its foreign competitors.

Let us keep these considerations in mind as we hear today's witnesses.

One more point, Mr. Chairman, and then I'm through. The President of the United States is in the fight of his life in pleading to hold down Federal spending—not enough in my view. He should concentrate also on the military, but he's on the right track certainly in the other areas. He's absolutely right to make the fight. If Congress does not respond and hold down spending, the country loses and loses big. No group in the country will lose more than our exporters and our homebuilders. Both will come before this committee and plead that they represent a special case. They will tell us on Federal spending, please cut it, but don't cut our subsidies. Those who plead that case have a very tough case to make. Frankly, if the Congress can't even cut subsidies for the exporters and homebuilders who have the most to gain from reducing the deficit, the prospects of the President and the country winning a deficit reduction are very grim.

Thank you.

Senator HEINZ. Senator Proxmire, thank you.

Senator Hecht.

Senator HECHT. No statement.

Senator HEINZ. Senator Cranston.

OPENING REMARKS OF SENATOR CRANSTON

Senator CRANSTON. I'd just like very briefly to say that I share many of the concerns that our chairman, Senator Heinz, has expressed. I want to see this Bank kept in business and I will pay great attention to the testimony to figure out the best way to do that and see if we can carry on the work on behalf of our exporters.

Senator HEINZ. Thank you, Senator Cranston.

Senator Mattingly.

OPENING STATEMENT OF SENATOR MATTINGLY

Senator MATTINGLY. Thank you, Mr. Chairman. First, I want to thank you for holding this series of meetings and I welcome Mr. Draper to the hearing.

I think it's especially important in the light of a $123 billion trade deficit that we just encountered in 1984 and to me the trade picture is pretty grim. I think that grim is probably the nicest word that you could say about it and I think that while we as Senators are bombarded with calls for legislation to protect U.S. businesses and to protect U.S. workers from the onslaught of both fair and unfair imports, there really are some of us who seek a positive solution to the problem of improving the U.S. competitive position in world trade.

I think this approach is really two-pronged. First, I think that we should fight unfair trade practices that discriminate against U.S. exporters. Second, I think we should do the things that are in our power to assure that U.S. exporters have the opportunity to compete.

Now, in this context, I believe it's important that we recognize the potential of the small businessmen who are trying to expand the export base of the United States. In the past I think the Department of Commerce has estimated there are something like 20,000 businesses who wanted to export but do not and I think you all are familiar with that. I have a very special interest in that because last session I cosponsored legislation to require the Eximbank to set aside 6 percent of its authorization, beginning last year, and more through these following years, as far as trying to help small businesses.

I think small businesses want to export and they want to compete, and they are able to compete on the basis of those things in which they excel. One is quality, the second is service, and the other is price. However, they have an inability to obtain competitive export financing which is one of the single most important reasons why small businesses don't export in the United States. I think your Bank's small business set-aside was meant to ensure that small businesses have better access to Eximbank's resources at competitive terms.

Now what concerns me are the problems that small businesses are still having in attempting to export; they maintain they are still unable to get export financing from any source. More specifically, my concern is that we're not giving the financing to those

who need it in the most efficient and useful manner. While the numbers might look good on paper there seems to be just as many businesses out there who want to export and say they can't than there were before we started this program.

It may seem that my concerns appear to be a little bit unclear, but as I mentioned, the numbers look good on paper but the problem seems to have improved little and I'm trying to figure out why.

Now, Mr. Chairman, in light of both our mutual growing concern over the continuing inability of small businesses to export, I would hope this committee would make a point of continuing to investigate that problem in the near future and I think that this could be done by having the Eximbank stress a little bit more and come before us in some more hearings in reference to, the set-aside for the Small Business Program.

With that, Mr. Chairman, I thank you and am waiting with bated breath to hear what Mr. Draper has to say.

[Complete prepared statement follows:]

STATEMENT OF SENATOR MACK MATTINGLY

First, let me commend you, Mr. Chairman for calling this, the first, in a series of hearings on the activities and effectiveness of the Export-Import Bank of the United States. Today's hearing is particularly timely in light of last week's announcement of a U.S. trade deficit for 1984 in excess of $123 billion. The fact remains—the U.S. trade picture is grim indeed. While we are bombarded with calls for legislation to protect U.S. businesses and workers from the onslaught of both fair and unfair imports there are some of us, strange as it may seem, who seek a positive solution to the problem of improving the U.S. competitive position in the world trade arena. This approach is two-pronged—first, we should fight unfair trade practices that unfairly discriminate against U.S. exports and, second, we should do things within our power to assure U.S. exporters of the opportunity to compete. Now, in this context I believe that it is important to recognize the potential of small businesses to greatly expand the export base of the United States. In the past, the Department of Commerce has estimated that some 20,000 businesses in our country could export, but do not.

I have a very special interest in small business export promotion. I was a cosponsor of legislation passed by the Congress during the last session that requires the U.S. Export-Import Bank to set aside a portion of the Bank's total resources for small business. I believe American small businesses want to export, they want to compete and are able to compete on the basis of those things at which they excell—quality, service, and price. However, their inability to obtain competitive export financing is one of the single most important reasons why small businesses do not export. Eximbank's small business set-aside was meant to ensure small businesses better access to Eximbank's resources at competitive terms.

What concerns me are the problems of small businesses attempting to export who maintain that they are still unable to obtain export financing from any source. More specifically, my concern is this—are we getting the financing to those who need it in the most efficient and useful manner. While the numbers look good on paper why do there seem to be just as many businesses who want to export and say they cannot as there were before the small business set-aside? I appologize if my concerns appear to be unclear, but as I mentioned, the numbers look good on paper, but the problem seems to have improved little and I am trying to figure out why.

Mr. Chairman, in light of my growing concern over the continuing inability of many small businesses to export I respectfully request that this committee make a point of investigating the problem in the near future. I think this can best be done within the context of a hearing on Eximbank's small business set-aside programs. Again, I congratulate the chairman on the timeliness of this hearing and look forward to the informative testimony of our distinguished witnesses today.

Senator HEINZ. Thank you, Senator Mattingly. Senator Sasser.

OPENING STATEMENT OF SENATOR SASSER

Senator SASSER. Thank you, Mr. Chairman. I think it's appropriate that the committee is holding these hearings on the Eximbank this week and I want to commend the chairman for doing so.

The President's budget proposal for fiscal year 1986 was announced yesterday. Of course, many portions of it were leaked days earlier and the budget is the center of everyone's attention this week. I'm going to leave this committee and go to a meeting of the Senate Budget Committee where we will be questioning David Stockman. It ought to be an interesting session.

I say, Mr. Chairman, that it's appropriate that we are having these hearings because the prospect of fighting to bring down the deficit raises critical questions, I think, with regard to the direction of trade policy of the United States of America. Our economic future depends in large measure on our ability to create and maintain American jobs. I have just come from a meeting with a number of mayors in my State who were lamenting the fact that plants have closed and they have got widespread unemployment, largely as a result of the trade imbalance and imports.

So our ability to create and maintain American jobs depends in large measure on the degree to which U.S. goods and services can be sold abroad. Now a trade deficit of over $120 billion does not speak well for our economic future. It's doubled in the past year. We could cut billions of dollars from the Federal budget for fiscal year 1986 and we're going to have to, but if our trading position continues to deteriorate, much of the benefit of these cuts is going to be lost. There is an appropriate and necessary Federal role in assuring a fair, competitive environment for American business in world markets. In a fair trading environment American businesses, I think, can outperform the corporations of any other country in the world. But the reality of the world marketplace is that the competition is not in fact fair, not in the sense that the people of this country understand economic fairness.

Our companies abroad are thrown into competition against national governments who subsidize their exports. So the role of the Export-Import Bank has been, is now, and will continue to be to moderate or eliminate those inequities in the international marketplace. This is done in two important ways. One is actual assistance through direct loans and loan guarantees and insurance, but the other is more subtle. It is the mere availability of assistance from the U.S. Government to American exporters that plays such a vital role in encouraging other governments to modify and reduce their own subsidy practices. It is in effect a threat of an eye for an eye and a tooth for a tooth. The best of all possible worlds would be for no subsidies to exist, but that's not the situation. The mandate provided in the law reauthorizing the Eximbank declared that it is policy of the U.S. Government that U.S. corporations will not be disadvantaged when they enter into the competition of world markets.

I want to say here today that I believe the mandate is appropriate in view of the realities of the marketplace, and it is necessary in connection with the national need to establish and maintain a sound economic base.

In sum, Mr. Chairman, I believe the Export-Import Bank has to be maintained at the strongest and most efficient levels we can achieve. I look forward to working with the chairman and with the witnesses here today in making necessary improvements and in assuring a dependable and consistent role for Eximbank in promoting U.S. exports.

Mr. Chairman, I ask that the balance of my statement be included in the record as if read.

Senator HEINZ. Without objection, so ordered.

[The complete prepared statement follows:]

STATEMENT OF SENATOR SASSER

Good morning. I think it's appropriate that the committee is holding these hearings on the Export-Import Bank this week. The President's budget proposals for fiscal year 1986 were of course announced yesterday, and the budget is the center of everyone's attention this week.

I say it's appropriate because the prospect of fighting to bring down the deficit raises some critical questions with regard to the direction of U.S. trade policy. Our economic future depends in large measure on our ability to create and maintain American jobs. Our ability to create and maintain American jobs depends in large measure on the degree to which U.S. goods and services can be sold abroad.

A trade deficit of over $120 billion does not speak well for our economic future. It has doubled in the past year. We can cut billions of dollars from the Federal budget for fiscal year 1986. We are going to have to. But if our trading position continues to deteriorate, much of the benefit of those cuts will be lost.

There is an appropriate and necessary Federal role in assuring a fair competitive environment for American business in world markets. In a fair trading environment, American business can outperform the corporations of any country in the world. But the reality of the world marketplace is that the competition is not, in fact, fair—not in the sense that people in this country understand it. Our companies are thrown into competition against national governments who subsidize exports.

The role of the Export-Import Bank has been, is now, and will continue to be to moderate or eliminate these inequities in the international marketplace. This is done in two important ways: one is actual assistance, through direct loans, loan guarantees and insurance; the other is more subtle. It is the mere availability of assistance from the U.S. Government to American exporters that plays such a vital role in encouraging other governments to modify and reduce their own subsidy practices. The best of all possible worlds would be for no subsidies to exist. But that is not the situation. The mandate provided in Public Law 98–181, reauthorizing Eximbank, declared that it is the policy of the U.S. Government that American corporations will not be disadvantaged when they enter the competition of world markets. I want to say here today that I believe the mandate is appropriate in view of the realities of the marketplace, and it is necessary in connection with the national need to establish and maintain a sound economic base.

Another aspect of the most recent Eximbank reauthorization that I feel is particularly important is the focus on small business. Senator Mattingly has referred to the amendment he and I coauthored, requiring that Eximbank programs be made available to small business. While the Bank has exerted a good deal of effort in creating publicity about the availability of assistance from the Bank, I am hearing from Tennessee—and this may be the case in other States—that the practical side of the small business program leaves something to be desired. I hope the year ahead will show signs of improvement in the services, technical assistance and access to Eximbank programs for small business.

The President's budget recommends complete elimination of the direct loan program, supposedly planning to make up the difference by shifting the entire program burden into loan guarantees and interest rate subsidies. I doubt very seriously whether this approach is feasible. We may be forced to consider general reductions, as we are doing in every other program of Government, but to abolish one of the strongest export-promoting mechanisms available to American business seems shortsighted and counterproductive.

In sum, Mr. Chairman, I believe the Export-Import Bank has to be maintained at the strongest and most efficient levels we can achieve. I look forward to working with you and with the witnesses here today in making necessary improvements, and

in assuring a dependable and consistent role for Eximbank in promoting U.S. exports.

Senator HEINZ. Senator Lautenberg.

OPENING STATEMENT OF SENATOR LAUTENBERG

Senator LAUTENBERG. Thank you, Mr. Chairman.

I am pleased to participate in these hearings. Trade is critical to our Nation and to the economy of my State. The jobs of over 100,000 New Jerseyians are directly dependent on exports. The State is a major exporter in such critical sectors as telecommunications, electronics, machinery, instruments, chemicals, and pharmaceuticals.

Export financing is a significant factor in the competition for world markets and how we fare in that competition will have an important bearing on our economic well-being and security in the years to come. We're not doing very well right now. We rang up a record deficit of $123 billion in trade last year, and this year will probably be even worse. All of us on each side of the aisle agree that we have to bring down the deficit. We argue about methodology. We argue about revenues. But one thing we cn all agree on is that a stronger economy will help make an enormous difference and it's hard for me to comprehend how we are going to do that and pull out one of the mainstays, in my view, for that growth.

Many of our competitors have adopted global economic strategies. They shelter their own industries and employ official export credits and other weapons to penetrate targeted markets. Meanwhile, we have been slow to meet the threat. Telecommunications is a perfect example. We moved to deregulate and opened up our markets without considering the international situation. Our competitors have been quick to take advantage. As a result, the balance of telecommunications, an industry in which we had an undisputed technological edge, has gone from a surplus of $200 million in 1982 to a deficit estimated to be in excess of $1 billion in 1984. Competitive financing is certainly a factor in that.

Any proposals to change our export financing program ought to get very careful scrutiny before being approved. In 1983, the Congress gave the Eximbank virtually an unequivocal mandate to meet the challenge of foreign export subsidies head on. I don't believe that we ought to backtrack on that now. Our adversaries are skillful and threatening to our economy and we cannot affort to throw down one of our best weapons and entrust our economic interests to their better natures.

I look forward to the testimony we're about to hear today and I commend you, Mr. Chairman, for holding these hearings. Thank you very much.

Senator HEINZ. Thank you, Senator Lautenberg.

Senator Gorton has a statement for the record. I ask unanimous consent that it be included at this point. So ordered.

[Statement follows:]

STATEMENT OF SENATOR GORTON

Senator GORTON. Mr. Chairman, I have only a brief opening statement. As you know, I have followed the fortunes of Eximbank with interest for some time. I believe that the administration's

proposal to replace Eximbank's direct lending program with an appropriated interest rate buydown is both misleading and shortsighted.

The proposal is misleading because the deficit reduction associated with it relies upon the accounting anomaly that, in the Federal budget, loan disbursements are treated just like expenditure disbursements. We could get exactly the same amount of deficit reduction by reforming our accounting practices, and this is what we should do. To call this real deficit reduction is smoke and mirrors on the administration's part.

It is also a shortsighted proposal, because the amount of money proposed to buy down interest rates appears to be seriously underfunded, compared to current credit assistance levels. Also, there are real questions about whether private commercial banks would be willing to lend for the lengths of time, and to the countries, that Eximbank lends to.

The proposal reduces the competitiveness of our export industries at a time when the high value of the dollar has already placed them at a severe competitive disadvantage. It also eliminates our negotiating leverage, just when several serious credit subsidy issues are yet to be resolved.

I recognize that deficit reduction will require that we all examine spending for programs that we support. I am willing to do this. Although I support Eximbank, I do not insist that its spending be placed off limits to the budget discussion. But I will oppose efforts to terminate the direct lending program outright, especially at a time when the program is so essential to the competitiveness of domestic manufacturers, and to the survival of the jobs these firms provide.

STATEMENT OF WILLIAM H. DRAPER III, PRESIDENT AND CHAIRMAN, EXPORT-IMPORT BANK

Mr. DRAPER. Mr. Chairman and members of the committee, I am pleased to appear before this committee today to review with you the Export-Import Bank's efforts to sustain and support U.S. exports.

Although U.S. exports are rising for the first time in 3 years, this Nation still faces a massive problem in our mounting trade deficit. This deficit could reach $150 billion in the current year.

Eximbank's role in assisting U.S. exports continues to be particularly important in cases where significant orders might otherwise be lost due to subsidized foreign financing or commercially unacceptable risk levels. The Bank offers U.S. exporters fully competitive financing at the lowest interest rates and the longest terms permitted under international agreement.

In an important breakthrough at the beginning of fiscal 1984, we successfully negotiated an agreement with our OECD counterparts that wrings out most of the subsidy in export credit agency lending rates. That agreement links those rates to future movements in market rates. Our ultimate goal is to make export financing around the world a competitive commercial proposition, free of government subsidies.

In the critical area of risk assumption, America has led the way, staying open in markets where other government export credit agencies withdrew coverage for their exporters.

Since mid-1983, we have made many major improvements in a wide range of our services. We have also instituted a number of programs that have vastly increased the two-way communications channels with users and potential users and helped us improve our range of services.

We have been especially active in encouraging small- and medium-sized businesses to increase their exports through Eximbank programs. In all, 13 percent of our fiscal 1984 budget authority was used to support small business activity. That is more than double the set-aside requirement in the 1983 legislation.

We have responded to foreign mixed-credit competition largely from our own resources, offering concessional financing packages, to strike against particularly flagrant misuses of aid funds by our competitors.

Our negotiations to limit mixed-credit financing have been slow and difficult because some countries view subsidies to industry differently than we do, and mixed credits are believed by them to be important to their export success. Nevertheless, some progress is being made.

Eximbank's activities in recent years have been profoundly affected by the international financial crisis. A worldwide recession began in 1980. World merchandise trade dropped 12 percent between 1980 and 1983.

The U.S. recovery began in late 1982, acting as an engine to pull other economies along. It has been a slow process and participation has been uneven.

Growth in less developed countries [LDC's] dropped drastically during this period. Growth rates in the Pacific Basin slowed to around 5 percent in the early 1980's compared to an 8.5-percent average during the 1970's. In Latin America, a prime market for U.S. exports, real gross national product actually dropped 4 percent between 1980 and 1983.

These low or negative growth rates, combined with high real interest rates, forced the LDC's to devote increasing amounts of their foreign exchange revenue to debt service. They responded by suspending most major investment projects and restricting imports to essential items.

In the important Latin American market, U.S. exports peaked at $39 billion in 1981 and then plunged 42 percent over the next 2 years.

As the debt crisis deepened, commercial credit lines dried up. Here the Eximbank has played a critical role. We made credit insurance facilities available to Mexico and Brazil that led the way to massive international rescue packages for those countries. We took a long range view of the risk factor in resource rich developing countries. We saw their problems as ones of illiquidity rather than insolvency.

We continued to support U.S. exports in many countries where our competitors went off cover. For example, Eximbank stayed open for both short- and long-term transactions in Brazil, while countries such as Japan and Canada ceased activity, and Britain and Germany sharply restricted their operations. In the Philippines, again, the United States remained open while many other leading trading nations suspended cover.

Eximbank's insurance and guarantee programs, which protect the exporter or lender against nonpayment by the foreign buyer, rose to $7.2 billion in fiscal 1984. This was up 24 percent from fiscal 1982. It was 11 percent higher than 1983, when you exclude the special $2 billion Mexican and Brazilian facilities.

On top of the increased demand for our regular insurance and guarantee programs, demand for Eximbank lending also began to increase in fiscal 1984. As the world recovery began to take hold, and some major projects were reinstated, our credit authorizations jumped 74 percent to $1.47 billion last year. These authorizations supported over $2 billion in U.S. exports in the face of officially supported foreign competition.

MIXED CREDITS

The Trade and Development Enhancement Act of 1983 directed that a program of tied aid credits be established within Eximbank, to be carried out in cooperation with the Agency for International Development and Private Financial Institutions as appropriate.

An Eximbank Senior Vice President has been assigned the responsibility of ensuring that, whenever an actual or potential foreign mixed credit offer is brought to our attention by a U.S. exporter, the possibility of a countering action is immediately explored with AID.

There have been relatively few cases, however, where AID has been able to develop a counter offer with us. Only a small portion of AID funds are available for this purpose in creditworthy countries where we do business.

Nevertheless, we have been able to counter foreign mixed credits with loans from our own funds at reduced interest rates or lengthened repayment terms or both. Because the cost of responding to mixed credits usually ranges from 70 to nearly 100 percent of the value of the contract at stake over the term of the loan, we have been highly selective in our approach. We are aware that a major purpose of the 1983 Eximbank legislation is "To encourage foreign governments to enter into effective and comprehensive agreements with the United States to end the use of tied aid credits for exports * * *." With that purpose in mind, we have devoted special attention to cases which seemed most likely to increase our negotiating leverage.

To cite a few examples, we offered a concessional interest rate and extended grace and repayment periods to an American manufacturer of communications equipment, who was competing with a French mixed credit offer in Cyprus. In a Malaysian case, we countered mixed credit offers from France and the United Kingdom on the sale of gas turbines, with a guarantee of 100 percent financing over an extended repayment period. Together with AID, we offered the Government of Botswana a true mixed credit. We combined Eximbank financing with an AID grant to support the sale of diesel locomotives against a Canadian mixed credit offer. In Algeria, we are supporting an American bid for a satellite communication system against a Japanese soft loan offer.

In December, proposals were made by the 10 countries of the European communities to broaden the definition of tied aid, and im-

prove the prior notification procedures. The proposals were not accompanied by a willingness to tighten actual controls, and thus reduce the frequency of mixed credits. We continue to be concerned about the lack of progress in this area and hope that we may be able to negotiate improvements in the controls this year.

In my view, the most effective way to stem the use of aid funds for commercial purposes is not by an all-out mixed credit war. We must mount a concerted effort to convince national leaders that mixed credits are truly robbing the poor to give to the rich. AID funds should be used to build roads, hospitals, and schools. The use of this scarce resource to support the sale of earth satellite stations and computerized machine tools perverts the very purpose of AID.

SMALL BUSINESS

During fiscal 1984, Eximbank intensified its efforts to assist small exporters and small firms with export potential that were not yet exporting. We authorized $1.8 billion in support in support for exports by small businesses, which is 13 percent of the total lending, insurance, and guarantee authority available to Eximbank. These results were achieved by pursuing an active communication and marketing program to reach out to those companies that could benefit from our services. We also introduced new programs tailored to small companies' needs.

In fiscal 1984 alone, Eximbank conducted a series of 34 small business export conferences across the country with a total attendance of 3,020.

Incidentally, just 2 weeks ago the Eximbank board approved a working capital guarantee put together by a banker and a small exporter who met at one of these seminars in Nashville, TN. We agreed to guarantee a $479,000 revolving credit line from Maryland National Bank to support Jernigan Trading Co.'s purchase of American timber for sale to European veneer mills.

Eximbank conducts a series of 1-day briefings in Washington attended by small exporters and potential exporters and 2-day briefings for bankers. Each session includes a full overview of the Bank's policies, operations and services and is offered at no charge. Attendance at these sessions exceeded 1,100 in fiscal 1984.

Special working meetings were also conducted with panels of exporters, export trading companies, banks, and insurance brokers, with associations such as the National Association of State Development Agencies, and with trade and finance specialists from the Department of Commerce and the Small Business Administration.

Last February, Eximbank published a new booklet describing its programs to small businesses. The initial supply of 15,000 was depleted in 2 months, and the popular booklet was reprinted twice during fiscal 1984.

Small companies with questions relating to exporting were encouraged to request Eximbank's advice and assistance by calling the toll-free hotline telephone number—800-424-5201. During the year, more than 9,000 calls for assistance were received on the special number.

Eximbank established a new marketing division to improve the delivery of its services to new and potential users, and began an

intensive test-marketing campaign in a four-State area: Illinois, Michigan, Minnesota, and Wisconsin. Eximbank will be trying a number of initiatives in the four-State area, and monitoring their success, in order to develop an effective nationwide marketing program.

Eximbank assisted small business exporters under each of its export support programs during the year, and expanded its programs that are specially tailored to assist small businesses.

Eximbank's small business authorizations included 98 loans totaling $144 million and 922 guarantee and insurance transactions totaling $1.7 billion. Of the small businesses receiving Eximbank's assistance during the year, 206 had not previously participated in Eximbank's programs. Of the commitments directly to small business during the year, 375 totaling $88 million were in amounts less than $500,000. Eximbank's small business authorizations, by program, follows:

SMALL BUSINESS AUTHORIZATIONS

Program	Amount (millions)	Transactions
Direct credits	$98	17
Medium-term credits	5	4
Small business credits	41	77
Total, loans	144	98
Financial guarantees	112	21
Bank guarantees	36	30
Working capital guarantees	18	10
FCIA insurance	1,494	861
Total, guarantees and insurance	1,660	922
Grand total	1,804	1,020

OTHER IMPROVEMENTS

The bank instituted many other significant improvements in its programs and delivery systems to assist American exporters.

We improved the scope of our insurance and guarantee program by reimbursing policyholders for eligible interest lost up to the time we paid a claim. Previously we paid interest only to date of default.

We instituted a hold-harmless provision for the new-to-export insurance policy, that made bankers much more willing to accept the proceeds as collateral for loans.

In response to the 1983 legislation, we established an advisory committee, drawing members from agriculture, banking, public service, and industry. One-fourth of the membership was selected from the small business community. We have held quarterly meetings and have found the input from the members of this committee valuable and supportive.

When we launched our four-State marketing campaign in September of last year, we decided for the first time to offer banks in these States authority to commit Eximbank's guarantee on work-

ing capital loans to exporters up to $300,000. So far we have signed up 20 banks under the program.

We developed a new export credit insurance umbrella policy, which can be held by banks, accounting firms, freight forwarders, export management companies, insurance brokers, and State agencies, and used to cover sales by small exporters. The umbrella policyholder handles the paperwork connected with the policy, either as a free service to a customer, or as an income-generating venture.

Eximbank also improved its existing array of programs available to the service industries.

We introduced the Engineering Multiplier Program, a new export financing program with enhanced benefits. It assists U.S. design, engineering, and architectural firms win contracts for foreign feasibility studies and preconstruction design and engineering services that have potential to generate substantial further orders for U.S. equipment and services.

We also extended our Small Business Credit Program to cover services as well as manufactured goods.

THE FUTURE

We at Eximbank are ever mindful that U.S. exporters are facing more intense competition than ever before in world markets. They are doing so with the handicap of a tenaciously strong dollar. We are alarmed by the rapid rise and staggering size of the U.S. trade deficit. Eximbank plays a key role in helping the American exporter overcome subsidized foreign competition and compete solely on the basis of technology, price, and performance. For every $1 billion of exports, we estimate that 25,000 American jobs are sustained or created.

As we look to fiscal 1986 and beyond, we recognize that Eximbank must continue to play a critical role in supporting U.S. exports in the face of subsidized foreign competition. Yet at the same time all Government programs—including Eximbank's—must contribute toward reducing our massive budget deficit. We believe that we have come up with a plan for fiscal 1986 that will enable Eximbank to meet both goals.

Specifically, we are proposing an increase in our guarantee and insurance authority from $10 billion to $12 billion. In order to effect significant budgetary savings, the budget proposes that all our lending programs be eliminated. However, fixed rate loans will continue to be needed to support U.S. exports. Therefore, the bank will establish a new program to buy down interest rates on export loans made by the private sector to minimum OECD consensus levels, where necessary to counter subsidized foreign competition. The program will provide for up to $1.8 billion on such guarantees of private loans. This represents a $300 million increase over the actual amount of fixed-rate financing authorized by Eximbank in fiscal 1984.

Depending on the amount of Eximbank participation required on individual transactions, this program could support up to $3 billion in U.S. exports. The total $12 billion guarantee and insurance authorization level requested for 1986 would support at least $14 billion in U.S. exports, an increase of 35 percent over 1984 levels.

Eximbank will continue to offer its insurance and medium-term guarantee programs on the same basis as we have in the past. These programs enable American exporters to offer their foreign customers credit terms while assuming a minimal amount of risk for nonpayment for commercial or political reasons.

In fiscal 1985, we expect to utilize our full authority of $13.865 billion. In response to the urgent need to reduce our country's budget deficit, the total authorization level requested for 1986 has been lowered to $12 billion. However, the progress made in our OECD negotiations to reduce export credit subsidies has borne fruit. The gap between minimum OECD lending rates and market rates has been drastically reduced or in some cases eliminated. This progress in reducing competitive export credit subsidies has permitted the Bank to shift more responsibility for export financing to the private sector at market interest rates.

The way we see it today, we can stretch our resources to provide American exporters with the support they require in the international marketplace. Interest rates are going down. Export credit lending rates are linked closely to those market rates. This will enable exporters to make greater use of the private sector.

Based upon the feedback we have been receiving, we believe that the business community recognizes our success in providing competitive financing. With renewed efforts and ingenuity we should be able to maintain in fiscal 1986 and beyond the confidence of American exporters that Eximbank is behind them and fighting for their interests.

Senator HEINZ. Thank you very much, Mr. Draper.

Mr. Goldfield.

STATEMENT OF H.P. GOLDFIELD, ASSISTANT SECRETARY FOR TRADE DEVELOPMENT, DEPARTMENT OF COMMERCE

Mr. GOLDFIELD. Mr. Chairman and members of the committee, my name is H.P. Goldfield, and I am Assistant Secretary of Commerce for Trade Development. I appreciate your invitation to testify at this oversight hearing on the Export-Import Bank.

This hearing is timely because I believe that the strong American economy is entering an important phase. The U.S. economy has made great advances in the past 2 years. During this period, 7.3 million new jobs have been created. Economic growth is strong. Last year's GNP growth rate was 6.8 percent, the best in decades. Prospects for continued strong economic growth in 1985 are good. Inflation appears to be well under control. Interest rates are down from previous historic highs.

STORM CLOUDS ON THE HORIZON

However, the U.S. economy does not operate in a vacuum. We participate actively in a global marketplace with which we are linked through a myriad of trade and financial ties. Notwithstanding our current prosperity, I am concerned about some storm clouds on the horizon. One is the Federal budget deficit, and a second is the trade deficit. Today, I want to focus my remarks on the trade deficit generally, and specifically on Eximbank's role in supporting U.S. exports.

What are the causes of the large merchandise trade deficits and the slippage in services trade account? Three factors dominate both accounts. First, lagging growth abroad, as compared to U.S. growth, has caused our imports to increase faster than our exports, and our trade deficit expands. Second are the financial and debt problems of the less developed countries. To cope with their severe financial problems, many debtor countries have had to cut their imports drastically and expand their exports. Again, our trade account has suffered. And third, the high exchange rate of the dollar. Most observers see the high exchange rate of the dollar as the dominant force behind our growing trade deficits. Since 1980, the dollar has risen about 40 percent against the currencies of our major industrial country trading partners. This has made U.S. products much more costly to foreign customers.

A reduction in the dollar exchange rate will depend in great measure on how successful the administration and the Congress are in reducing the budget deficit. Unless and until the deficit is reduced, the dollar exchange rate is likely to remain high.

Eximbank's traditional credit programs have served U.S. exporters well. In fiscal year 1984, Eximbank financed about $10 billion of U.S. exports despite diminishing global demand. This represents one-quarter of a million U.S. jobs for our workers.

While Eximbank finances only a fraction of U.S. trade, its programs are available to counter foreign official subsidies, assure that U.S.-held trade receivables will be repaid, and access necessary credit terms unavailable in the private market.

I also wish to note that many of the exports supported by Eximbank embody some of the best skills and talents that America has to offer. For instance, telecommunications and aerospace, these goods and services are at the leading edge of future U.S. economic and trade growth. Given a fair marketplace and appropriate financing, they can continue to hold a commanding presence in the world market.

Eximbank also has complemented U.S. policy objectives and actions addressing the trade deficit and the debt problem of developing countries. Over $2 billion of special Eximbank credit facilities were extended to Mexico, Brazil, and other countries as an integral part of the administration's international debt policies. These programs, in my mind, clearly created a more positive atmosphere for economic adjustment in these countries. These and other Eximbank actions sustained U.S. export trade during difficult times, thereby supporting employment and production here in the United States.

EXIMBANK'S CURRENT STATUS

In response to the committee's specific question, our assessment is that, overall, Eximbank is in compliance with the mandate of its charter to offer competitive financing for exports in all of its programs. The primary competitive element in Eximbank's loan programs is the interest rate charged on the Bank's loans. Eximbank currently charges rates on its loans at the levels stipulated under the international export credit guidelines of the Organization for Economic Cooperation and Development [OECD]—the same rates

charged by most other OECD governments. Similarly, Eximbank usually requires a repayment term that is identical with the repayment term offered by other governments.

Also, Eximbank's guarantee and insurance program appears to compare favorably with those offered abroad. The principal competitive dimension here is the extent to which Eximbank assumes potential risks of default, thus encouraging private lenders to provide credit. Indeed, in some important respects, Eximbank's risk-taking programs are superior to those available to foreign exporters.

Mr. Chairman, the Department of Commerce has recently heard from a number of business associations expressing support for a strong and vigorous Eximbank. They make the point that export business has been severely depressed during the past 2 or 3 years and when demand revives, they believe, it is vital that competitive Eximbank financing be available and in place to support their efforts to win the business. The administration's proposal on Eximbank recognizes the need for competitive U.S. credit in the world marketplace and is geared to assure that an adequate amount of credit will be supplied.

Also, the administration shares the concern of the Congress on mixed credits. Within the past year, the administration also has served notice on foreign governments by countering certain mixed credits on a selective basis. One of these mixed credits has proven successful in securing the business for a U.S. company. Two other orders were awarded to foreign suppliers. The other cases are still pending.

These results, Mr. Chairman, point to the complexities of the mixed credits issue. Matching will not, per se, assure a U.S. export—U.S. price and quality must suit the buyer's needs. Matching also is costly, and this cost must be balanced against the value of any exports gained.

We are satisfied that Eximbank's mixed credit policy has been on course and that the Bank has been effective in implementing its mixed credit program.

An equally important objective for Eximbank is to encourage the participation of small- and medium-sized businesses in international commerce.

The past 4 years have witnessed something of a revolution in how Eximbank has reponded to small business needs. I understand that Chairman Draper's testimony addresses this issue in detail. I will, therefore, defer to him, but want to emphasize our strong interest in the important and vital small business sector. Export opportunities, if more fully exploited, would be an abundant source of new jobs and profits for smaller firms as well as contribute toward the correction of the U.S. trade deficit. Accordingly, the Department of Commerce has made every effort to cooperate closely with Eximbank to carry the exporting message to smaller firms across the country. The Commerce Department's district offices, for example, have been instructed to give even greater priority to their small business constituencies and have been furnished with new and expanded instructional materials. We also have undertaken many seminars for smaller companies on export financing.

In conclusion, Eximbank has responded to the challenges of meeting foreign competition, of sustaining U.S. trade in the face of global recession and the debt problem, and of supporting the international negotiations to reduce credit subsidies. With these successes, we now are in a good position to address the larger problems of reducing the budget deficit and bringing down the dollar exchange rate that depresses all our exports, whether financed or not. We need the Congress' help and understanding to carry out this important endeavor.

This concludes my testimony. I will be happy to answer any questions you may have.

[The complete statement follows:]

Statement of

Honorable H. P. Goldfield

Assistant Secretary of Commerce
for Trade Development

Mr. Chairman and Members of the Committee, my name is H. P. Goldfield, and I am Assistant Secretary of Commerce for Trade Development. I appreciate your invitation to testify at this oversight hearing on the Export-Import Bank.

The United States and the World Economy

This hearing is timely because I believe that the American economy is entering an important phase. How the future turns out will depend in large measure on our actions today.

The U.S. economy has made great advances in the last two years. During the past two years, 7.3 million new jobs have been created, while the unemployment rate has been brought down to just over seven percent. Economic growth is strong, and last year's GNP growth rate was 6.8 percent-- the best in decades. Prospects for continued strong economic growth in 1985 are good. Inflation appears to be under control. Interest rates are down, and markets are finally beginning to respond in a way that suggests they are now convinced of that fact.

However, the U.S. economy does not operate in a vacuum. We participate actively in a global marketplace with which we are linked through a myriad of trade and financial ties. Our recovery is not an isolated phenomenon, but will be stronger and more durable as other countries recover. We thus have a strong economic and trade interest is promoting growth worldwide.

Notwithstanding our current prosperity, I am concerned about some storm clouds on the horizon. One cloud is the Federal budget deficit, and a second is the trade deficit. Both clouds contain not just minor turbulence, but powerful, potentially destructive currents that could do long-term damage to our economic well-being. Today, I want to focus my remarks on the trade deficit generally, and specifically on Eximbank's role in supporting U.S. exports.

The U.S. Trade Deficit

What are the causes of the large merchandise trade deficits and the slippage in the services trade account? The same three factors are driving results in both accounts:

- Lagging growth abroad compared to U.S. growth;
- The financial problems of less developed country debtors; and
- The high exchange rate of the dollar.

Clearly, the U.S. economy grew much faster during the past three years than the economies of our major trading partners. In 1981, U.S. growth exceeded that of the other industrialized countries by three-quarters of a percentage point. In 1983, the gap was more than three percentage points. While U.S. employment rose spectacularly from 1980 to 1984, employment in the European Economic Community fell by 3.5 million jobs during the same period.

Obviously, we welcome strong economic growth here in the United States. But when our trading partners' demand for foreign goods lags behind, our imports increase faster than our exports, and our trade deficit expands. Indeed, this relationship is a major contributor to our trade deficit. Economists differ in their estimates of the effects of growth rate differentials. Some say it causes about one-fourth of the increased deficit; others attribute as much as one-half of recent increases in the deficit to growth differentials.

Changes in the patterns of our trade with debt-ridden developing countries are also important in our trade deficit problem. To cope with their severe financial problems, many debtor countries have had to cut their imports and expand their exports. Since many of these countries are in Latin America-- an important regional market for U.S. exports-- these changes have had a significant effect on the United States. Indeed, our merchandise trade balance with 16 major high-debt developing countries moved from a 1981 deficit of $11 billion to an estimated 1984 deficit of almost $38 billion, a $27 billion addition to our trade deficit.

While different growth rates vis-a-vis our traditional trading partners and the LDC debt problem are important contributing factors, most observers see the high exchange rate of the dollar as the dominant force behind our growing trade deficits. Since 1980, the dollar has risen about 40 percent against the currencies of our major industrial country trading partners. This means that, on balance, this has made U.S. goods and services much more costly to foreign customers. The high exchange rate of the dollar is estimated by many

economists to be responsible for half or more of the growth in the trade deficits since 1981.

A reduction in the dollar exchange rate will depend in great measure on how successful the Administration and the Congress are in reducing the budget deficit. Government borrowing necessitated by large budget deficits holds interest rates higher than necessary and makes dollar investments even more attractive as a safe haven for foreign capital. Unless and until the deficit is reduced, the dollar exchange rate is likely to remain high.

Eximbank's Role

Eximbank has an important role in meeting U.S. trade objectives. As stated in the first substantive paragraph of its Charter Act, Eximbank's basic purpose is

> To aid in financing and to facilitate exports and imports and the exchange of commodities and services between the United States....and any foreign country.

Throughout its 50-year history, Eximbank has responded to the financing needs of U.S. trade. Eximbank's traditional credit programs have served U.S. exporters well. In Fiscal Year 1984, we estimate Eximbank financed about $10 billion of U.S. exports despite diminished global demand. This is equivalent to a quarter of a million jobs. Among those benefiting from Eximbank's activities are farmers, small businesses, and U.S. labor.

Eximbank finances only about five percent of U.S. trade, with the preponderant share either paid for in cash or financed privately. This is as it should be. Eximbank's programs are available, however, to counter foreign official subsidies, to assure that U.S.-held trade receivables will be repaid, and to access necessary credit terms not available in the private market.

I also wish to note that many of the exports supported by Eximbank embodies some of the best skills and talents that America has to offer-- for instance, telecommunications and aerospace. These and related goods and services are at the leading edge of future U.S. economic and trade growth. Given fair opportunity, they can establish a commanding presence in the world marketplace. The U.S. Government has consistently worked to ensure fair market access abroad for all our products. But when offered for sale, these products also often need to be accompanied by appropriate financing.

Eximbank also has complemented U.S. policy objectives and actions addressing the trade deficit and the debt problem of developing countries. Over $2 billion of special Eximbank credit facilities were extended to Mexico, Brazil, and other countries as an integral part of the Administration's international debt policies. These programs, in my mind, clearly created a more positive atmosphere for economic adjustment in these countries. These and other Eximbank actions sustained U.S. export trade as the world economy entered recession, thereby supporting employment and production at home.

International Export Credit Guidelines

Before responding to the competitiveness issues that the Committee asked me to address, I would like to refer briefly to the international export credit guidelines. These guidelines, adopted by 22 OECD governments-- including the United States-- standardize the credit terms for exports financed by participant governments.

This Administration has consistently sought to neutralize government financing as an element of trade competition. We strongly believe that international trade should reflect market forces, such as price, quality, and other intrinsic product merits. We strongly oppose credit and other subsidies by governments that artificially cheapen a country's export prices and thus distort trade.

When this Administration assumed office in 1981, we found that credit subsidies were pervasive, with at least one government absorbing annual losses of as much as 10 cents on each dollar of its current export lending. In order to maintain competitiveness, export credit subsidies forced "innocent bystander" governments to adopt comparable subsidies or suffer export losses despite the better price or quality of their products.

The Administration immediately intensified negotiations with our OECD trading partners to correct the distortions that had arisen. After many negotiating rounds and intermediate steps, the OECD governments in 1983 adopted new export

credit guidelines that finally reduced subsidies to a more tolerable level. OECD estimates indicate that such subsidies have diminished 80 percent during the past four years.

The guidelines' key feature is a system of minimum interest rates that corresponds closely to interest rates in the private market-- changing as market rates change. Since 1980, the successful outcome of the negotiations has saved the U.S. Government hundreds of millions of dollars in credit subsidies. Also, I would like to emphasize that export credit interest rates under the international guidelines are now quite close to market rates.

I focus on these guidelines because they offer the most realistic prospect for meeting export credit subsidy problems. Matching inappropriate foreign subsidies with subsidies of our own has some logic in terms of deterring such practices, but such a practice for its own sake is costly to the taxpayer and does not enhance our objective of a market-based trading system. Getting all OECD governments to agree to restrain export credit subsidies is key to U.S. export competitiveness.

Eximbank Competitiveness

In response to the Committee's specific question, we believe that Eximbank is in compliance with the mandate under its charter to offer competitive financing for exports in all of its programs.

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The primary competitive element in Eximbank's loan programs is the interest rate charged on the Bank's loans. As pointed out above, Eximbank currently charges interest rates on its loans at the levels stipulated under the international export credit guidelines-- the same rates charged by most other OECD governments. Similarly, Eximbank usually requires a repayment term that is identical with the repayment term offered by other governments. Hence, we conclude that Eximbank lending is competitive with respect both to interest rate and repayment term.

Eximbank's guarantee and insurance programs appear to compare favorably with those offered abroad. The principal competitive dimension here is the extent to which Eximbank assumes potential risks of default, thus encouraging private lenders to provide credit. Despite some minor technical differences among national export credit guarantee and insurance systems, Eximbank appears to offer broadly the same types of protection as is offered by others. Indeed, in some important respects, Eximbank's risk-taking programs are superior to those available to foreign exporters.

Mr. Chairman, the Department of Commerce has recently heard from a number of business associations expressing support for a strong and vigorous Eximbank. They made the point that export business has been severely depressed during the past two to three years due to the global recession, the international debt problem, and the value of the dollar. When demand revives, they believe, it is vital that competitive Eximbank financing be available and in place to support their efforts to win the business. The Administration's proposal on

Eximbank recognizes the need for competitive U.S. credit in the world marketplace and is geared to assure that an adequate amount of credit will be supplied.

Mixed Credits

Pursuant to the Trade and Development Enhancement Act of 1983, Congress mandated the Administration to negotiate international limits on foreign mixed credit practices and authorized Eximbank and AID to establish Tied Aid Credit Programs to counter such practices.

The Administration shares the concern of the Congress on mixed credits. This is the guidelines' most significant remaining loophole. Despite some progress on curtailing this predatory credit practice in recent years, much more clearly needs to be done.

The Administration is giving this issue the highest priority in negotiations within the OECD. I attended the last negotiating round at the OECD in December 1984, as did Chairman Draper and Assistant Secretary Mulford from the Treasury Department. The issue also has been raised at the Ministerial level in the OECD.

In December, most OECD governments were able to agree on greater transparency on mixed credits-- that is, to provide more information on this practice. We regard this as helpful and a positive step forward. Certain governments, however, were unwilling to accept greater discipline on mixed credits. By

this I mean a meaningful increase in the minimum grant element on mixed credits to 50 percent. As tighter discipline is our primary goal, the Administration felt that a change in the guidelines limited only to informational aspects was inadequate. We and other like-minded governments will return to the negotiating table in March this year prepared to press hard for effective limits.

Within the past year, the Administration also has served notice on foreign governments by countering certain mixed credits on a selective basis. One of these mixed credits has proven successful in securing the business for a U.S. company. Two other cases were awarded to foreign suppliers. The remaining cases are still pending.

These results, Mr. Chairman, point to the complexities of the mixed credits issue. Matching will not, per se, assure a U.S. export-- U.S. price and quality also must suit the buyer's needs. Matching is costly, and this cost must be balanced against the value of any exports gained. We must be careful to aim at predatory financing, and not against genuine aid terms extended to developing countries.

We are satisfied that Eximbank's mixed credit policy has been on course and that the Bank has been effective in implementing its mixed credit program. Our objective is to reach an agreement with other OECD governments on curtailing mixed credits. To that end, we have countered mixed credits initiated by others and are prepared, if warranted, to do more. Some progress

in the negotiations has been made in the past several years, and there are signs of further progress in the foreseeable future. We intend to press our negotiating efforts until our objective is reached.

Export Financing for Small Business

An equally important objective for Eximbank is to encourage the participation of small and medium-sized businesses in international commerce. Most smaller firms in this country do not engage actively in exporting. Export opportunities, if more fully exploited, would be an abundant source of new jobs and profits for this vital sector as well as contribute toward the correction of the U.S. trade deficit.

The past four years have witnessed something of a revolution in how Eximbank has responded to small business needs:

- Eximbank has established a medium-term credit program that provides the same competitive credit terms for smaller export sales that formerly were provided exclusively to large companies.

- Eximbank is providing working capital guarantees to meet the special problems that small businesses face in obtaining day-to-day financing needed to run an export business. In 1984, Eximbank eliminated duplication in this program with other agencies while expanding the funds available for working capital for small businesses. Further, Eximbank is now test-marketing a decentralization of authority to commit the Bank's guarantee, so that local banks can act promptly to requests from companies.

- Eximbank has reserved a Small Business Credit Program exclusively to make loans at guideline interest rates for export sales made by small businesses.

- Eximbank has developed a new insurance policy-- the "umbrella" policy-- to simplify risk-taking problems and procedures for small exporters.

- Eximbank is working closely with State governments interested in strengthening financing for their local firms, sharing its experience and pointing out some of the pitfalls the Bank sees in this area.

- Eximbank is now test-marketing both the umbrella policy and a decentralized working capital guarantee program in a four-State area. If successful, these programs will be extended nationwide. Eximbank's initiative is being supported by intensified support from other Government agencies, including the Commerce Department District Offices. It is premature to assess results, but the initial reactions appear to have been very favorable.

- Eximbank has doubled its personnel on small business financing problems. It participated in 34 Small Business Seminars, spoke to over 3,000 attendees, and engaged in a vigorous outreach program. I can attest that Eximbank also has worked closely with the Commerce Department District Offices, training 61 of our trade specialists to ensure that the Government's expertise on financing is available locally, where it is most needed.

These new programs are additional to the traditional support provided by Eximbank's affiliate, the Foreign Credit Insurance Association, which is geared to promoting the export trade of small business. Also, the Department of Commerce, and Eximbank have cooperated closely to carry the exporting message to smaller firms across this country. The Commerce Department's District Offices, for example, have been instructed to give even greater priority to their small business constituencies and have been furnished with new and expanded instructional materials. We also have undertaken many seminars for smaller companies on export financing.

In conclusion, Eximbank has responded to the challenges of meeting foreign competition, of sustaining U.S. trade in the face of global recession and the debt problem, and of supporting the international negotiations to reduce credit subsidies. With these successes, we now are in a good position to address the larger problems of reducing the budget deficit and bringing down the dollar exchange rate that depresses all our exports, whether financed or not. We need the Congress' help and understanding to carry out this important enterprise.

This concludes my testimony. I will be happy to answer any questions you may have.

* * *

Senator HEINZ. Mr. Goldfield, thank you very much.

As you are all aware, this hearing was originally scheduled substantially before the administration sent its budget message to the Hill and you were asked by letter to address, and you have addressed in large part in your statements, the questions involving the effectiveness of the Eximbank, the contributions that it has made. But I will, nonetheless, want to ask you some questions about the recent budget proposal.

USE OF ALL LENDING AUTHORITY

Let me start with Chairman Draper. Chairman Draper, the Bank has failed for the past 3 years to use all its direct lending authority. Does that failure indicate that the Direct Lending Program is unnecessary or is it attributable to a period of worldwide recession? And if it's attributable to the latter, what do you see as demand for Eximbank direct credit for 1985 and 1986 now that the world economy is in full recovery?

Let me say parenthetically that the Eximbank authorization is in effect for 1985 and virtually all of 1986 and to the extent that we are going to look at any changes, we won't be looking at them obviously for quite some time.

Mr. DRAPER. Right, Mr. Chairman. In answer to the question of why we haven't used our full authority in the last 2 years, I think it's quite clear that because of the recession there were postponements in most countries of large projects that substantially reduced the demand for our direct lending. By the way, during that period of time, we did not have in place the OECD arrangement that we now have with automatic adjustment of minimum interest rates as market rates change, so direct lending was necessary specifically to meet foreign government below market interference in the marketplace.

We now have that agreement in very good shape so that official rates do fluctuate with the market. As a result, we should be able to use a large portion of our guarantee authority as a substitute for what had been our direct credit demand. We can do this on a guarantee-only basis because commercial rates are very close to our official rates.

With regard to overall demand, I can give you some numbers that might be helpful.

Senator HEINZ. Would you submit those for the record? I'm just a little unclear on the answer to the specifics of my question, which is, do you see demand for direct credit increasing in 1985 and 1986 now that world economic recovery is going ahead strongly, not just our economic recovery? I wasn't quite clear as to what you saw in terms of demand for direct credit.

[The following information was subsequently submitted for the record:]

ESTIMATED DEMAND FOR LONG-TERM FIXED RATE FINANCING—FISCAL YEAR 1986

For fiscal year 1986, Eximbank estimates that $1.8 billion will be necessary for subsidized below market financing of U.S. exports. Additionally, because market rates have moved lower and closer to Arrangement rates, and because Arrangement rates now move with market rates, the Bank estimates that up to $2.0 billion of export credit can be supported through financial guarantees of market rate credit.

Mr. DRAPER. I think if it were not for our Interest Matching Program that I outlined in my testimony, I would say we would need direct credit, but we do have a way of tackling that with the new program.

Senator HEINZ. You mean the interest rate buydown?

Mr. DRAPER. Yes; we haven't really given it a name, but interest rate buydown or we might call it an Interest Matching Program.

Senator HEINZ. But that's not on the books. We don't know whether it's ever going to be on the books. I'm talking really about current law.

Mr. DRAPER. We don't have a 1986 budget yet.

Senator HEINZ. I'm not asking about the budget.

Mr. DRAPER. In 1985, we will use our full budget, yes.

Senator HEINZ. I'm asking you about your prediction for demand for direct credit.

Mr. DRAPER. I think in 1985 we will need the authority that you have given us as far as we can see today.

Senator HEINZ. Mr. Goldfield, do you believe that the demand for Eximbank direct credit for 1985 and 1986 is going to increase? And if so, to what level?

Mr. GOLDFIELD. Mr. Chairman, I think it's difficult for us to project just how quickly some of our former markets, whether in lesser developed countries or in some of our more traditional trading partners in Europe, will recover. I think that while the lesser developed countries—Brazil, Mexico, Venezuela, and Argentina, for example—may have survived the most immediate debt crisis, I don't believe that the medium-term adjustment problems which they are going to face are by any means over.

As a result, with respect to the demand on direct credits, I think we're still going to see many of the major projects that heretofore have been on the planning board and for which certain of these countries would begin to undertake financing and planning are going to continue to lag well behind former anticipated needs.

With respect to growth in the European Community, I think we are seeing some growth but it still lags behind our own.

As a result, the bottom line answer to your question is that, although it's hard to predict at this point, the amount that the administration has pegged to support an equal if not minimally greater number of direct credits in the coming years should suffice, but if circumstances change dramatically we would have to look at it.

Senator HEINZ. As to 1986, you're saying that's just too far out there to be sure?

Mr. GOLDFIELD. I think we are operating on almost a daily or month-to-month assessment as to what the growth projections are going to be and this point I would say, based upon the record of the past 2 years, there should be sufficient moneys available to meet the demand, but again, circumstances could change.

Senator HEINZ. Do you agree with Mr. Draper's statement that he would use all the $3.8 billion in 1985 in direct credit?

Mr. GOLDFIELD. I would have to defer to Mr. Draper who spends day-to-day activity on it with the Board. I would hope that they would use as much as is in the budget.

NEW OECD ARRANGEMENT

Senator HEINZ. Mr. Draper, in your written statement you have argued that the new OECD credit arrangement—and it is a vast improvement over what existed before—that that arrangement has eliminated most of the subsidies in official direct lending now that rates are tied to market conditions.

Now if true at all, doesn't that elimination of subsidy really only apply to the credits for so-called category 1 countries where we send less than 20 percent of our directly supported exports? Second, how far below the market are the arrangement rates for category 2 and 3 countries and what proportion of Eximbank business do you understand involves those countries?

Mr. DRAPER. What was the second question?

Senator HEINZ. The second question is with respect to the category 2 and 3 countries, what are the arrangement rates for those countries; and second, what proportion as a matter of fact was or is Eximbank business involved in exports to those countries with respect to direct credit?

Mr. DRAPER. Just answering that question first, the rate for the developed countries is 12.25 percent for over 5 years. Intermediate countries, 11.2 percent; and less developed countries, 9.85 percent. Our business is roughly half category 2 and half category 3 as it is now working because category 1 countries, as you pointed out, can be covered by a guarantee-only.

Senator HEINZ. At the 5-year credit rates of 11.2 and 9.85 percent in categories 2 and 3 respectively, doesn't that at current international interest rates still therefore amount to a subsidy for exports by our trading competitors?

Mr. DRAPER. Yes, it does. And just getting back to your other question, there's no question that we will continue to have foreign government intervention in the marketplace that should be matched in some way or other. We hope that without the direct credit program this proposed interest matching program will suffice.

Senator HEINZ. My time is just about up, but since you bring up the interest rate matching program, the administration is requesting $100 million for that plus $30 million in fees; is that correct? How much in exports would that support?

Mr. DRAPER. It's $100 million plus the 2-percent front-end fees that we charge. So if we did $1.8 billion in exports, that would be an additional $36 million from fees that could be used as subsidies. So, in effect, we could use $136 million to subsidize the $1.8 billion of credits.

Senator HEINZ. You're saying that the amount of money the administration has requested for the credit buydown in fiscal year 1986 would support roughly $1.8 billion in exports? Is that right?

Mr. DRAPER. No, it's $1.8 billion in credits which could support up to $3 billion in exports. Let me go through that just a minute because it's a little complicated.

Senator HEINZ. Well, let's come back to my question. I'm trespassing on someone else's time. We can work out the math later, whether it's $1.8 or $3 billion.

Mr. DRAPER. Those are two very different numbers. It's $1.8 billion of credit guarantee authority that we could use in order to support $3 billion of exports because in aircraft, for instance, we might support only 42½ percent of the total export.

Senator HEINZ. I think we understand that. The cover is typically 60 percent or so and I think we understand that. Let me finish my statement and I think it will be clear to you.

Whether it is $1.8 billion which would be 100-percent cover or whether it's $3 billion in export supported which would be a lower figure in cover as I understand it, either of those numbers are going to be less than the $3.8 billion in direct credit that you say you are going to need to support $5 billion in exports this year.

So it seems to me that the math of the interest rate buydown doesn't work.

Senator Proxmire.

SUBSIDY ELEMENT

Senator PROXMIRE. Mr. Draper, isn't it true that for the last 20 years or so the Eximbank Direct Loan Program has involved a subsidy element; that is, the difference between the interest rate at which the Bank borrows money as opposed to the rate at which it lends money?

Mr. DRAPER. That is correct.

Senator PROXMIRE. Now isn't it true as well that the Bank's new proposed program to buy down interest rates on export loans made by private banks will continue to subsidize exporters?

Mr. DRAPER. That's correct.

Senator PROXMIRE. The only difference that I can see between the effect of the Bank's current Direct Loan Program and the new proposed Buydown Program is that the new program would be financed by an appropriated Federal expenditure each fiscal year while the present subsidy program is financed by drawing down the Bank's equity position. Is that correct?

Mr. DRAPER. Yes.

Senator PROXMIRE. Now Mr. Goldfield, we hear so much from industry that the Eximbank——

Mr. DRAPER. By the way, that subsidy would not be appropriated. It would come out of our reserves. We would count that against our reserves and it would not be appropriated as long as we have reserves.

Senator PROXMIRE. First it would come out of your reserves. When the reserves are exhausted, then there would be an appropriation. Is that correct?

Mr. DRAPER. That's correct.

Senator PROXMIRE. All right. Now we hear so much from industry, Mr. Goldfield, that the Eximbank does not match up with similar instruments used by foreign governments to aid their exporters, so we're at a disadvantage. We get that view all the time and there are Members of Congress who seem to share that view. So I'm pleased to note that on page 8 of your testimony that you believe the Bank's guarantee and insurance programs are "in some important respects superior to those available to foreign exporters."

In March 1983, the U.S. Chamber of Commerce testified before this committee and said: "At a time of falling interest rates and rising concern about foreign debt, credit availability may be more important than credit cost," and it urged the Bank to stress its guarantee and insurance programs. So I'm happy to hear our programs in those areas are superior and can you tell us how they are superior?

Mr. GOLDFIELD. First, Senator, let me state that they are substantially similar. To the extent they're superior, there is additional coverage with respect to political and commercial risks that we offer in terms of percentage of amount covered that is not offered by all of our OECD competitors.

Senator PROXMIRE. You say all of our OECD competitors. Where would you place our coverage as compared with theirs?

Mr. GOLDFIELD. I would say we are substantially equivalent on the guarantee and insurance.

Senator PROXMIRE. Substantially equivalent. We're superior to some and we're inferior to some; is that right?

Mr. GOLDFIELD. I would have to defer to Mr. Draper on some of the specifics.

Senator PROXMIRE. Rather than give us—and this may be unfair to ask you off the top of your head to tell us exactly where we place, but for the record, would you gentlemen provide this committee with information as to exactly where we stand in each category so we have a more precise notion?

Mr. GOLDFIELD. Yes, we would be happy to.

[The following information is supplied for the record by Mr. Goldfield:]

Some aspects in which guarantee and insurance programs of the Export-Import Bank and its affiliate, the Foreign Credit Insurance Association [FCIA], are superior to their foreign counterparts include the following:

During fiscal year 1983, FCIA provided over $2 billion in special credit facilities for U.S. exports to Mexico, Brazil, and other countries experiencing debt problems. These facilities were available to support U.S. exporters shipping to these countries, while foreign governments were cutting back on their credit programs to the same countries.

Eximbank's medium-term commercial bank guarantees and FCIA credit insurance offer 100 percent reimbursement for losses due to political risks. All foreign export credit programs provide less cover—in most cases, 90 to 95 percent.

Eximbank's financial guarantee program can access long-term fixed-rate private capital through the Private Export Funding Corporation. In most foreign countries, private long-term fixed rate financing for exports is virtually unobtainable in the private capital markets.

However, it is difficult to measure overall competitiveness among national export credit systems, given their complexity and diversity in numerous technical details and in administrative responsiveness. An advantage in one area may be offset by a less advantageous feature in another area.

Senator PROXMIRE. Now, Mr. Draper, in 1980, seven firms received two-thirds of the Bank's direct loans and in 1981 one firm received 45 percent of the total direct credits authorized by the Bank. In other words, in all direct loans made by Eximbank, seven companies got two-thirds of the Bank's direct loan funds in 1980 and one firm got almost half, 45 percent of such funds in 1981.

Do you know what the figures are from 1982, 1983, 1984, and are most of the direct loan resources still committed to a few manufacturers of aircraft, nuclear plants, and generators?

TWENTY TOP USERS OF CREDIT

Mr. DRAPER. We have the top 20 users of direct credit, but you've got to realize that out of the total $10 billion of exports last year, a lot of that was in guarantees and insurance.

Senator PROXMIRE. I understand. I'm asking about direct loans.

Mr. DRAPER. You're asking about direct credit only. Twenty companies got as follows: Let's take 1983 first. McDonnell Douglas was the leader and their export value was $323 million; United Technologies, $300 million; Boeing, $142 million; General Electric, $112 million, Kaiser Engineers, $65 million; Mack Trucks, $40 million; Sedco, $31 million; United States Steel, $24 million; Hunter Engineering, $16 million; TAMS, $11 million——

Senator PROXMIRE. I think that's enough to make my point.

Mr. DRAPER. I'm trying to make the point that they do cover quite a broad range. Fuller, McDermott, Dresser Industries, Westinghouse was $6.5 million, often said by you, Senator, to take so much. Peerless Pumps was next, almost as big as Westinghouse, a very small company. Bechtel was $5.5 million; Continental, $3.5 million; Gardner-Denver, $3 million. That was 1983.

Senator PROXMIRE. Let me just interrupt to say that the point I'm trying to make is that a few companies get the great proportion of your loans.

Mr. DRAPER. It varies depending on where there's big exports and where there's foreign government interference and you can't gainsay the fact that their are a few large companies that are the biggest exporters employing the most jobs in the sector that we help.

Senator PROXMIRE. I started off by saying in 1980 seven firms got two-thirds of your loans. In 1981, one firm received 45 percent. So supposing you tell me for 1982, 1983, and 1984 because we don't have those figures—you have them apparently—what was the amount that the firm that got the largest proportion of your direct loans—what percentage did they get in 1982, 1983, and 1984?

Mr. DRAPER. All right. I have 1983 and 1984 in front of me. We can supply you with 1982. McDonnell Douglas got 12.8 percent and United Technologies, 26.1 percent in 1983. Those were the largest. In 1984 Boeing got 30.3 percent of our credits authorized and McDonnell Douglas 10.9 percent. In 1984 aircraft came back after several years of real decline.

Senator PROXMIRE. Well, that's very helpful. Will you give me the details for 1982 for the record?

Mr. DRAPER. Sure.

[The following information was subsequently submitted for the record:]

TOP 20 EXIM USERS--1982
Direct Credits Only

COMPANY[1]	EXPORT VALUE ($ mil.)	CREDIT VALUE ($ mil.)	PERCENT OF CREDITS AUTHORIZED Total (%)	Identified* (%)
General Electric	480.2	291.4	10.4	13.5
Allis-Chalmers	297.4	251.7	9.0	11.7
Boeing	249.9	117.4	4.2	5.4
Fluor Corp.	240.0	155.9	5.6	7.2
Morrison-Knudsen	194.0	145.5	5.2	6.7
General Motors	111.6	63.4	2.3	2.9
WABCO	110.0	82.5	3.0	3.8
McDonnell-Douglas	98.5	40.2	1.4	1.9
Babcock & Wilcox	96.0	64.2	2.3	3.0
Westinghouse	87.1	50.6	1.8	2.3
Great Lakes Dredge & Dock	72.6	54.5	2.0	2.5
Johnson Brothers Corp.	69.4	52.1	1.9	2.4
United Technologies	68.8	38.3	1.4	1.8
Kaiser Engineers	60.0	45.0	1.6	2.1
Lancaster Steel	43.7	31.1	1.1	1.4
Chemtex	41.2	19.2	0.7	0.9
USS Oil Well Supply	40.5	26.3	0.9	1.2
Hughes Aircraft	40.0	27.6	1.0	1.3
Fuller Co.	39.9	30.0	1.1	1.4
Davy McKee	33.0	14.0	0.5	0.6
TOTAL	2,373.8	1,600.9	57.3	74.2

[1]Ranked according to export value.

*It is not always possible to immediately identify the equipment suppliers under Exim's direct loans, as specific procurement decisions may not be made until some time after the loan is authorized. Thus, this column is based on only the "identifiable" exporters in each fiscal year.

Senator PROXMIRE. Now, Mr. Goldfield, in March 1983, Mr. Leland of the Treasury Department told us that success has been achieved in raising the grant element in mixed credits to 20 percent and they hope to get that raised to 25 percent. He felt that would be sufficient as mixed credits get too expensive after that.

EFFORT TO ELIMINATE MIXED CREDITS

Now you tell us you are trying to get it raised to 50 percent. What is the current agreement on that issue?

Mr. GOLDFIELD. Senator, I think that all of our efforts should be used toward eliminating mixed credits, period. We should make it extremely expensive for countries that want to engage in such a practice to do so where they are mixing pure aid with commercial credits. I think our goal is to eliminate it. Our next goal is to make it as expensive as we possibly can for those who want to engage in it.

I think our goal of 50 percent should remain our goal. In terms of our negotiating strategy, I think we've made some progress at the OECD in raising the grant element over the past several years from 15 percent to effectively 25 percent. I think it needs to go further. Every time a mixed credit is undertaken, it is extremely costly to all involved.

Senator PROXMIRE. Of course, the important thing is to get an agreement, isn't it?

Mr. GOLDFIELD. The important thing is to reach agreement.

Senator PROXMIRE. If you don't get agreement, it doesn't do any good to have a goal of 50 percent even though that would be desirable.

Mr. GOLDFIELD. I think we've made some progress on the one front in December with respect to transparency with respect to the notification issue. I don't think we have gone nearly far enough for reaching the goal on the discipline for the raising of the grant element.

QUESTION OF ADVERSE IMPACT

Senator PROXMIRE. Mr. Draper, on another matter, I note section 911 of your charter requires the Bank to implement regulations to ensure that full consideration be given to the adverse domestic impact of your direct loan and loan guarantee programs. I understand the Bank subsequently adopted procedures to include in papers prepared for the Bank Board an analysis to indicate whether or not a transaction would have an adverse domestic impact.

In August 1983, you funded the sale of 10 Boeing aircraft to Singapore International Airlines and Pan Am complained to us that it never was informed of that transaction. My staff examined the full record of that transaction and found the written analysis of adverse impact required under your own procedures had never been prepared.

Now once more, Pan Am never had a chance to make any presentation to the Bank about its concern. I wrote to you about that, as did several of my colleagues.

Can you tell me what measures the Bank has taken to ensure our domestic industry and workers are not harmed by subsidies given to foreign industry by their own Government?

Mr. DRAPER. Well, quite to the contrary, in that case, U.S. employees were helped by the fact that that export went forward. Singapore, being a tough negotiator, tied 747's to the purchase of 767's versus Airbus and they would not untie them. So we know that that was a highly competitive case, and we luckily got half the order.

I'll tell you, it's a very good thing that we got it and it would have been a big mistake not to. We have done aircraft studies in the past. Eximbank's overall aircraft policy which has been constantly reviewed, is not to offer any competitive direct credit for the purchase of 747's because there is no plane like the 747 so we offer guarantee only on that one. But in this case, they did not segregate out the 747. They were buying a large package of airplanes, and we would have lost the 767 to Airbus if we had not given some credit support for the 747 engines in that case.

I think we did the right thing, as I told you in my answer to your letter.

Senator PROXMIRE. My time is up on this but the chairman has graciously permitted me to try and clarify what I've asked. I said my staff examined the full record of that transaction and found the written analysis of adverse impact required by your own procedures had never been prepared. Is that right or wrong?

Mr. DRAPER. That's not correct in the implication.

Senator PROXMIRE. Had it been prepared?

Mr. DRAPER. It was not prepared for that specific case.

Senator PROXMIRE. Why not?

Mr. DRAPER. Because there's an overall policy on aircraft, and we do assume that Airbus is in competition with both McDonnell Douglas and Boeing.

Senator PROXMIRE. And in those cases you don't prepare an adverse impact?

Mr. DRAPER. We don't prepare an adverse impact when there's a current policy for the sector; that would be just a waste of paper and time.

Senator PROXMIRE. Maybe it's a waste of paper, but how about Pan Am? Shouldn't they have had a chance to make a presentation to the Bank about its concerns?

Mr. DRAPER. We never knew they were interested in making a presentation to the Bank. We certainly have never denied anybody the opportunity to come up and present any case they want.

Senator PROXMIRE. But you can see the logic of this.

Mr. DRAPER. I think this all came out after—go ahead, sir.

Senator PROXMIRE. If a foreign airline can buy the 747, which is a superior aircraft, under favorable circumstances, it can have an advantage over a domestic airline. They may be wrong. Their case may be weak. But it seems to me that you should prepare an adverse impact even if you say that the adverse impact wouldn't be great and then permit Pan Am or other interested airlines to appear and make their case. You could still deny or approve the loan or guarantee, but at least the procedure has been fair to our domestic industries.

Mr. DRAPER. In hindsight, I wish I had because then we could have said, yes, we did. But we didn't, and we will see that we do so in the future whenever there is a case that we have any doubt about. In that case, we had no doubt because the 747's were so lashed together with the 767's in competition with the Airbus, so we couldn't separate the two. We tried to separate the two contracts.

Senator PROXMIRE. Thank you, Mr. Chairman.

Senator HEINZ. Senator Lautenberg.

Senator LAUTENBERG. Thank you, Mr. Chairman.

Mr. Draper, one of the objectives in providing the Bank with a clear-cut mandate in the 1983 act was to strengthen our position in negotiating on official credits. In your statement you note that some recent improvements with the OECD arrangement have taken place.

UPDATE OF PROGRESS IN NEGOTIATIONS

Could you bring us up to date on what kind of progress has been made thus far in the arrangement of these negotiations?

Mr. DRAPER. Yes. First of all, with regard to the basic structure of the consensus, we have raised the minimum interest rates substantially. When I came to the Bank in 1981, the competition was charging 7.75 percent for their money and we were charging 8.75 percent, and we were paying the Federal Financing Bank 14 percent for our money and it went up to 15.5 percent.

So we had a major problem and we got into these negotiations and independently raised our own rates up to 10.75 percent in order to get their attention. They came to 10 percent and then we went to 12 percent; then they went up to 11.3 percent for most countries, and then we dropped our rates right on to the competition. We were required to be competitive and we were competitive, more so than when I had come to the Bank.

So we felt good about the rate. Then the next problem was to not have this ever happen again where there is such a huge differential between official rates and the market rate, where we are losing so much money. We're paying for it now because these commitments that we made earlier are hitting our profit statement, which Senator Proxmire mentioned, and it will continue for several years, obviously.

But in the spring of last year we concluded an agreement that allows the rates to float as market rates float. So we are now very close to market rates. As market rates have fallen and as the official rates are tied to those market rates, we now have very little subsidy. That's one element.

Another is that for nuclear power, we have a system which requires 100 basis points over these consensus rates that varies——

Senator LAUTENBERG. You've given me enough, frankly even more than I needed, to make the point that our willingness to provide competitive export financing was crucial in opening these negotiations to enable to bring some pressure in there. So now if we back off on some of the tools that you've got to provide competitive financing are we going to be able to continue to press on the arrangements with our trading partners to have a fair relationship

between American export interests and unfair competition from abroad?

Mr. DRAPER. Well, I think we will. With this new system of interest matching we've not taking away our competitive stature even where we used to answer with direct credits. We now can answer with this program. In the case of nuclear power, there are no mixed credits allowed. Mixed credits is the one gnawing problem that still occurs—where they grab aid out of an aid bucket and just slap it onto a commerical deal.

Well, we are trying to battle that one, but we don't have money for mixed credit financing. It's terribly expensive. On the other hand, I would say this to you, having observed these negotiations and attended almost every session: Even if we had a big barrel of money for mixed credits, I don't think it would change the attitude of the various countries a bit because I think right now France, England, Germany, and Japan are all competing in this area of mixed credit. When there's a mixed credit, they can all match and they do, and it's usually for a large construction project that has high visibility. We did match 8 out of 22 cases that were proposed to us last year—not matched, but we came in on those cases—and we will continue through the rest of this fiscal year to try and attack those mixed credit cases with our own form of mixed credit which, of course, is technically not a mixed credit because AID just does not have the funds to help us out. So we have lowered our own rates and we've offered concessional rates and terms to try to match the competition.

I hear what you're saying, but I think there are so many in that particular game that our muscle won't go that far. Most countries are trying to do something about reducing or eliminating the mixed credits. France seems to be the one that's holding out, and I think they will get isolated.

Senator LAUTENBERG. But then do we surrender our competitive position? Do we sacrifice the jobs? Or are we saying that we are going to stay in their and slug it out? Obviously, I think Senator Proxmire's point about so much of this going to companies that perhaps at times don't even need the assistance, nevertheless, there is a job creation, there is competition created by these opportunities presented by our financing programs, and I think if we take away the direct subsidy that not only are we going to lose the direct advantage but we are also going to lose the negotiating advantage.

Mr. DRAPER. But I want to make clear, we are not taking away the subsidy. Let me just give you some numbers that are quite interesting. Over the last 2 years, the way we calculate it, we used only $111 million in subsidy to support $2.5 billion worth of direct credit——

Senator LAUTENBERG. Of guarantee?

Mr. DRAPER. No, not of guarantee. I think it was $2.5 billion—here it is—$111 million of subsidy in 1983 and 1984 is all the Eximbank wrote a check for, in effect, when calculated the same way we're planning to calculate this new program. That made available $2.3 billion of loan authority which, in turn, might have supported $4 or $5 billion of exports. So you've got $2.3 billion of authority that we made available with $111 million of subsidy. We've asking

for, in effect, $136 million of subsidy for 1986, which, given those same numbers in the same situation, although of course they've never exactly the same, might be able to forward $3 or $4 billion of exports.

And I think it's clear that we can do more, as I said in my testimony, than we did in 1984. We did $1.5 billion in 1984. At the minimum, it would be $1.8 billion with that $136 million of subsidy.

Senator LAUTENBERG. Say it again. The $1.8 billion figure——

Mr. DRAPER. The $1.8 billion is what we would estimate using—we have asked for $100 million plus the $36 million because we charge a 2-percent front-end fee. That is also counted in the subsidy calculation, as agreed to with OMB. So $136 million will give about $1.8 billion in authorization which becomes direct credit authorization in effect. So we are really not losing our power to compete in this area but we don't have anything in there for mixed credits.

Senator LAUTENBERG. Right. But are we not in fact going into the 1986 fiscal year with less opportunity to support or to encourage our companies to compete on better terms as a result of the changes that are comtemplated?

Mr. DRAPER. Not if you give us this budget. I don't think we are discouraging them one bit. We're very much in the game. If other countries intervene, that's the only time we will use this subsidy—when they do intervene with lower than market rates. If other countries are at market, we'll give guarantee only and we've got $12 billion of total guarantee authority. We expect to use $1.8 billion of it, or roughly $2 billion of the $12 billion, on this kind of program using the sudsidy as it's spelled out, and I think it's going to work.

TAKES $3.5 BILLION OUT OF THE DEFICIT

So I'd recommend that you help us this way because the big thing that it does is take our direct credit as a hit against the budget deficit away and that is a very critical thing, as you Senators know, coming up. We've got to do something about that total budget deficit and this will take some $3.5 billion in 3 years out.

Senator LAUTENBERG. Mr. Draper, I'm out of time but I don't want to let you get away with that last word, if you'll forgive me, and that is—Mr. Chairman, please, your indulgence—right today we are not discussing the manner in which we solve the deficit problem. What we are discussing is what the responsibility of Eximbank to assist in our export-driven economy. And to me, the question about budget deficit, honestly, in all due respect, is an overriding factor but it's extraneous to our discussion here.

Mr. DRAPER. Not at all, sir.

Senator LAUTENBERG. If we penalize our industries such that $1 billion here, there and otherwise, we're talking about a ratio of 25,000 jobs, per your own estimate, to each billion dollars' worth of export opportunity, and I want to be sure that in the process of purportedly reducing that budget deficit that we don't eliminate jobs all over the country or impair our country's ability to operate effectively. And I think that's the issue, Mr. Chairman, as I understand it, before us today.

Senator HEINZ. Senator Dodd.

Senator DODD. Thank you, Mr. Chairman. Very briefly, I would ask just one question. Are we addressing just Mr. Draper?

Senator HEINZ. To either Mr. Goldfield or Mr. Draper. Then we'll have another panel.

Senator DODD. Let me just ask a question, I think the underlying question of Senator Lautenberg and mine as well. I'm interested very much in the question that Senator Proxmire asked to get into the workings of this Eximbank and how it's functioning and whether it could be doing better. But as I understand it, what it's doing or what's being suggested by the administration is to take now a position 180 degrees from where they were only a few short months ago with regard to the Eximbank. From the status of being one of the saviors dealing with the foreign trade deficit, it's now being targeted as one of the devils in terms of your point, which I agree with, Mr. Draper, although we can't divorce the subject from the overall problem of the budget deficit.

WHAT IS THE IMPACT?

But rather than talk about holding the line or cutting the budget of the subsidy program of the Eximbank, we're getting a suggestion here to now virtually eliminate it, at least in a very significant area. What is the impact? It's a simple question of both of us. Has any analysis been done at all on what the impact would be of this kind of start-and-stop philosophy in terms of U.S. corporations expanding or developing more business opportunities in the export market? What is the message here and what is the impact of the message that is of that nature that goes from being, as I said earlier, something which I gathered was mentioned in the State of the Union Message a couple years ago of being a very important element in reducing the deficit in the balance of trade, to the situation today of being virtually targeted for elimination?

Mr. DRAPER. I think we have to correct that misconception. We are not proposing the elimination of our competitiveness when forced to compete against foreign government intervention. We are also not eliminating any of our normal guarantee and, insurance programs, or those programs that help us to compete by giving our exporters risk absorption. So there's risk absorption. The administration believes in blocking off foreign government intervention and we have designed this program to do that. It does spell out the subsidy that we are counting in order to do that and I think you would want that. It gives you more clarity as to what we are doing with the money.

Senator DODD. I would love to see that happen if there were reciprocal actions being taken by some of our chief competitors. I spent 4 or 5 days in Japan about a month ago. I heard a lot of rhetoric about what the Japanese are going to do, but there was nothing very specific at all when it came to their involvement in terms of financing and subsidizing Japanese industry.

Can you tell me something this morning specifically that the Japanese are going to do in a reciprocal fashion that the administration suggests we do with the Eximbank that would give me at

least some cause to be willing to try this out, anything specifically the Japanese are doing in a similar fashion?

Mr. DRAPER. Well, I don't know specifically that they agree to do anything that can match us except to comply with the OECD consensus which we have agreed to comply with and which all those countries who are members have agreed to comply with. Even on the mixed credits they are complying with the agreement. We just don't like the agreement and every time a country wants to finance a competitive situation, competitive for us, we will match then down to that OECD consensus and this amount of subsidy will give us that ability.

So it's not that the administration is flipping and saying the Eximbank is not strongly in support of American exporters and they should be supported then whenever there's foreign government intervention. That's exactly what we are saying we will do. The way it comes out in the newspapers and perhaps for the benefit of the budget deficit problem to try to get down from the $200 billion to the $100 billion, it counts because, crazily enough—I come out of business and I cannot believe anybody would run a business on a cash basis, and that's exactly the way the budget works today—our loans are counted on a cash basis. We make an investment in a loan that collects interest and that's counted against the budget as if we had spent the money for clothes, or food, or on salaries, or whatever.

This program corrects that. The loans will not be counted on the budget any more under this program, but we will spell out our subsidy which will be counted. We would be limited to supporting $1.8 billion in loans from the private sector, and we think the difference between $1.8 billion and, say, the $3.8 billion in loan authority that we have this year can be taken up by guarantees only because we're so close to market rates.

Senator DODD. What I'm trying to get at is the kind of message and signal in addition to our deficit problem. I couldn't agree with you more. I think it would be highly irresponsible for us to suggest that this discussion should be entirely divorced from that debate and I, for one, support this whole freeze of everything across the board, the freeze-plus.

Mr. DRAPER. Good.

PROFOUND SIGNAL

Senator DODD. What I'm seeing here is a very profound signal and I think we're very successfully jawboning on issues that have to do with official finance support and I think been fairly successful to some degree and I suspect this particular program has been one of our leverage points in that debate.

What would you think if you were sitting in the Diet in Japan or the Parliaments in France or Great Britain where we see increases of official financing support in the last 2 fiscal years in terms of what their commitment is? What does this say? Are we backing away now? Are we going to in effect allow that kind of behavior to continue to proceed at the detriment of our own industries and businesses in this country at a time when we're at war and losing the war. It seems to me this is a very negative signal we are send-

ing in terms of our commitment to try to change the climate that exists internationally when it comes to official financing.

Mr. DRAPER. Senator Dodd, we have seen actual declines in our competitor's activity.

Senator DODD. I'm looking at 1981-82 and you have something that's much more current.

Mr. DRAPER. I'm looking at 1982-83 and that's much more current. Canada has dropped from $1.4 billion to $600 million; Germany from $4 billion to $3.2 billion; Japan from $4.9 billion to $2.9 billion. Speaking of Japan, their Eximbank lends money on their credits in yen at about market rates. So they're really not the problem. We have them all in a bag. That's the reason we can propose this program to you today and say we will be competitive and we can knock the direct credits off the budget.

I think we are not trying to tie one hand behind our back. We literally can do a very effective job of competing in 1986 if you give us the budget we are requesting.

Senator DODD. I'm sure my time is up. Let's just make one other point from the few years I've been on this committee and my feeling that the small business component is something I think all of us feel very strongly about. I don't know what sort of involvement you have had with the People's Republic of China at all, but I noted while I was there as part of this particular trip that it's tremendously costly for U.S. industry to even maintain one person in China. I think the figure was something like one-quarter of a million dollars a year to maintain a one-man operation there.

Obviously, small business suffers terribly in trying to develop market opportunities in a place like the People's Republic of China. Certainly I understand the importance of the volume of business they do, but I would just like to take the opportunity again this morning to once again emphasize the tremendous importance of that small business component in whatever formulation you ultimately develop in terms of financing.

Thank you, Mr. Chairman.

Senator HEINZ. Mr. Draper, Mr. Goldfield, a number of my colleagues I think, as I do, desire to submit questions to you in writing in fairness to our next panel since there are a lot of questions we have for them. I trust that both of you will try to give us as responsive an answer so it would be unnecessary to call you back to answer questions that are answered vaguely or insufficiently. Normally that's not a problem with either of you and I don't suggest it has been in the past, but I just want, in the rush of budget matters and things, to emphasize to anybody else who's listening that we really do need good answers to the questions we will submit to you.

Mr. DRAPER. We will be happy to do that.

Senator LAUTENBERG. May I make a record clarification?

Senator HEINZ. Certainly.

Senator LAUTENBERG. Despite the tone, it wasn't intended to be a suggestion of mine that the deficit is not a problem and that we ought not to focus on that. What I was trying to do was in our discussion focus on the function that we are discussing today, the Eximbank and its responsibilities, and I thank Mr. Draper again for trying to be forthright despite the fact that I cut off debate.

[Response to written questions of Senators Heinz and Proxmire follow:]

RESPONSE TO WRITTEN QUESTIONS OF SENATOR HEINZ

FROM

WILLIAM H. DRAPER, III, CHAIRMAN, EXPORT-IMPORT BANK

SENATOR HEINZ: It is argued that since West Germany does not have a direct lending program for its exports but rather relies on loan guarantees through its Hermes agency, that we should pattern our official export credit programs on the West German mode. U.S. banks, however, are far more independent, less susceptible to governmental influence, than are the West German banks. West German banks are also much more closely tied to specific export industries, which is prohibited to our banks by law. Given these factors, do you think that the West German program can be an effective model for the United States to adopt?

MR. DRAPER: We only take those strong points of the German system which can be appropriately applied to our own system. West Germany is one of the countries which relies primarily on its commercial banks to provide the funds for export credits, and limits the government role to reinsuring the privately-owned insurance agency HERMES and to occasional subsidies where necessary for the export credits of certain sectors. Switzerland and the Netherlands are other examples of countries whose governments place primary emphasis on export credit guarantees. The guarantee parts of their systems could appropriately be applied to our own.

These three governments leave all or most of the funding to a half-dozen or fewer large private banks and a few banks owned by political sub-divisions. Their medium and long-term capital markets are relatively thin and unable to support a large volume of export credits.

In the I-MATCH program, we would expect to find potential funding sources from among several dozen banks which are active in international banking and from other financial institutions, such as PEFCO, which are able to tap our deep capital markets.

SENATOR HEINZ: The Bank's charter requires you to establish a mixed credit program to counter the foreign mixed credits our exporters frequently face. If we follow OMB's recommendation, there will be no direct credit program in FY 1986. Any mixed credit, therefore, will have to come from a buy-down of a commercial loan. First of all, where are we going to find a commercial bank, even with an Eximbank guarantee, that will be willing to provide financing for exports to compete with the repayment term of a typical foreign mixed credit, which can be 10, 15, 20 years or more? And second, with such a token buy-down program, don't you risk expending a very large portion of your authorization in one mixed credit package? In other words, why shouldn't this Committee believe that OMB's recommendation effectively puts Eximbank out of the mixed credit business and leaves American exporters totally defenseless against mixed credit competition?

MR. DRAPER: The I-MATCH program proposed by the Administration permits Exim to offer a mixed credit in which AID funds are mixed with Exim-supported funding to provide a mixed credit package. The AID funds will be the long maturity funds, with Exim-supported funds at the standard OECD rate and terms generally provided by

Exim. The I-MATCH proposal does not include buying down commercial rates below Arrangement levels; consequently, Exim would not propose to match lower than Arrangement rate credits using only its own I-MATCH authority.

SENATOR HEINZ: One of our most effective threats to enforce discipline on foreign official direct credits, particularly those that are not in accordance with the terms of the OECD Arrangement, is to derogate on term, offering credits with pay-back beyond the ten year Arrangement maximum. Don't we give up that tool without an effective Eximbank direct lending program?

MR. DRAPER: Under the Administration's interest buy-down proposal, Exim will be able to derogate on terms. Even if commercial banks are unwilling to extend their term, PEFCO can provide longer term funds to enable the Bank to derogate on term.

SENATOR HEINZ: Congress set aside 6% of the direct credit budget in FY 1984 for small business. That rises to 8% in FY 1985 and 10% in FY 1986. Doesn't this become a sham if there is no direct credit program? After all 10% of nothing is still nothing.

MR. DRAPER: For 1984, Congress provided for a set-aside for small business of 6% of Exim's total commitment authority which includes guarantees and insurance as well as loans; the legislation did not state that the set-aside applied to individual elements of the Bank's total authority. Therefore, of the $12.0 billion of commitment authority requested for FY 1986, 10% would be set aside for small business. Since the I-MATCH program substitutes for direct lending, small businesses could benefit under the I-MATCH program to the same extent that they did under the direct lending programs.

SENATOR HEINZ: Let us assume that Eximbank will take seriously its legal requirement to provide exporters with competitive financing. The Bank historically does 80 percent of its direct lending business with the poorer countries. Since commercial rates to these countries tend to be higher than rates to the richer countries while at the same time Official Arrangement rates are even lower to the poorer countries, the spreads that will have to be subsidized are much larger. All of this could tend to draw down the Bank's authorization early in the fiscal year. Won't all this tempt administrators to seek to maximize their resources by favoring exports to the relatively rich countries where spreads are smaller and repayment more reliable? And won't this, in turn, result in the United States surrendering a significant market share in the one area of international trade where we have been the stongest, namely in trade to the lesser developed countries?

MR. DRAPER: Our tendency would be the opposite, as it is now. We would provide Eximbank support where it is most needed. Generally, subsidized support is needed most where competing subsidies are the greatest, namely in the poorest countries, where the minimum OECD rates for non-aircraft financing are the lowest. In the relatively rich countries, and for aircraft cases, OECD rates are close to market rates and often can be supported with a Bank guarantee without interest rate subsidy.

SENATOR HEINZ: Are you aware of any survey that OMB has conducted to ascertain whether U.S. commercial banks will be willing to participate in a buy-down program, particularly one that requires fixed rates, at extended terms of 8 to 10 years? And if there has been so such study, where is the wisdom in scrapping an entire program that we know by experience will work, in favor of an untested, and indeed questionable, interest rate buy-down program?

MR. DRAPER: The OMB has not conducted any surveys of U.S. commercial banks' attitudes toward I-MATCH; however Eximbank has had extensive discussions about I-MATCH with commercial banks, investment banks, exporters, and others. Most banks have expressed an interest in the program and indicated they would like to participate. Almost all of them have identified changes to the Program which they believe would make their participation easier. Exim is studing these modifications. However, even without any changes, the Private Export Funding Corporation (PEFCO) has stated that it can and will participate in the I-MATCH program and will have no trouble financing exports on terms of 8 to 10 years. Indeed, providing long-term fixed market rate export financing was the reason PEFCO was established in 1971. Therefore, we know that the program is feasible and will work, and we would encourage all financial entities to look for ways in which to participate in it with us.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR PROXMIRE

FROM

WILLIAM H. DRAPER,III, CHAIRMAN, EXPORT-IMPORT BANK

Senator Proxmire: Following up on a discussion we had at our hearing, I again note that Section 1911 of the Bank's charter requires it to implement regulations to ensure that full consideration is given to possible adverse domestic impacts of the Bank's direct loan and financial guarantee program. During our hearing I told you that Pan American Airlines complained to me and other Senators that it was injured by the Bank's loans and guarantees to Singapore International Airlines in 1983 for the purchase of Boeing aircraft. I asked whether Pan Am "should not have been given a chance to make a presentation to the bank about its concerns." You replied that you "never knew they were interested in making a presentation to the Bank."

(a) In order to enable the Bank to better fulfill its statutory obligation to consider the adverse domestic impact of its individual transactions, wouldn't it make sense for the Bank to adopt procedures giving the public notice of its proposed transactions either before or after you make a preliminary commitment to go ahead with a transaction?

(b) Wouldn't such a procedure give domestic industries, that might suffer an adverse impact, an opportunity to let the Bank know of that matter before a transaction is finalized?

(c) Wouldn't such a procedure assist the Bank in carrying out the intent of Congress when it put Section 1911 in its Charter?

Mr. Draper: As required by law, Eximbank has developed procedures that enable Eximbank to assess the likelihood of the Bank's activity in any specific case resulting in an adverse impact on U.S. industry. These procedures are based on a process that, first, annually reviews every broad area of Eximbank activity to determine whether the basic economics of a given sector presents any potential for adverse economic impact; and second, puts all cases that fall into a sector considered potentially problematic through an investigation and snslysis. These analyses vary in intensity from an initial review (for cases or sectors where it can be quickly determined that specific aspects do not exist, such as trade distorting practices) to detailed and extensive examinations (for cases or sectors where there is a known possibility of economic impact considerations).

The three components of a full-scale economic impact analysis include: 1) the trade policy implications of the project; 2) the trade balance flows associated; and 3) the possible impact on specific U.S. producers. This latter aspect is particularly important to projects related to manufacturing and mining/refining because many of these U.S. industries are already experiencing a depressed market, and any further loss of some portion of their market share to the Eximbank-supported foreign entities' newly acquired manufacturing or mining/refining capabilities could be a major influence on corporate viability. Hence, in all such cases the Eximbank procedures consider

the impact of Eximbank support on specific U.S. industries, and in sensitive sectors Eximbank has developed industry-specific methods of incorporating the views of the affected industry into the analysis. The aircraft sector, however, has not historically been included in the list of sensitive sectors.

As a starting point, on almost all manufacturing/mining projects, Eximbank regularly checks with U.S. government industry experts (who are generally aware if a given U.S. industry is experiencing undue hardships) to get their input on the industry's current condition and whether foreign production is exacerbating their competitive position. Hence, Eximbank maintains continuing contacts with the Department of Commerce, the Department of Energy, the Department of Agriculture, the United States Trade Representative, and the International Trade Commission. Depending on the nature of the transaction, one or several of these entities will be asked for their views regarding the status of the U.S. industry and the appropriateness of Eximbank's support.

For specific U.S. industries that have been identified as having an unstable economic outlook, the Bank tries to determine the possible impact of a new or expanded foreign project on this outlook by contacting U.S. firms engaged in the related activity (and/or their trade associations). The main industries where such procedures have been developed include: steel, copper, coal, and fertilizers. Hence, a procedure does exist (and has existed since 1978) to obtain U.S. industry views on the possible adverse impact of Eximbank activity on their industries.

Thus, in general, Eximbank's procedures enable the staff to formulate quickly and effectively a comprehensive view of the potential economic impact problems raised by the transactions brought to the Bank for approval. Based on historical activity levels, only about 20 percent of the transactions brought before the Board involve economic impact considerations. These individual cases are closely analyzed by the Bank and, where appropriate, views of U.S. firms that might be affected are taken into account. In addition, the Bank is also pursuing ways of giving even greater attention to identifying cases where further follow-up inquiries, either on an industry basis or with specific firms, will be undertaken. In this way, the views of industries which may be affected by a particular transaction can be considered by the Board, while at the same time the Bank can continue to provide competitive financing for U.S. exporters on a timely basis and without jeopardizing their position in sensitive bid situations.

SENATOR PROXMIRE: During our hearing the proposal by the President to eliminate the Bank's direct loan program and to replace it with an "interest buy down" program was criticized for being unilateral disarmament in the face of the strong trade subsidy financing programs funded by our major trade competitors. In light of these criticisms I would like to know:

(a) Whether Britain and France are alleged to have effective export subsidy programs?

(b) Whether the President's "interest buy down" program is not very similar to such export programs in place in Britain and France, where government agencies make up the difference to banks between the market rates of interest and the terms extended by banks?

MR. DRAPER: Yes, Britain and France have subsidy programs which enable their exporters to offer fixed interest rate credits at the minimum interest rates of the OECD Arrangement -- the same rates which are charged in Eximbank's programs. But there are differences due to the fact that other countries do not have the advantage of a deep long term capital market which we enjoy in this country. The President's program is quite similar to the British program except that Eximbank's payments will be determined by bids for fixed-rate funds and the British payments to their banks are determined by the difference between the OECD Arrangement minimum rates and rates in Britain for short term money. When short term rates rise during the life of the export credit, the British system becomes very expensive to the Government. The French system produces the same result as the President's proposal but in a more complex manner. A portion of repayment installments due in the first seven years are discounted by the central bank, Banque de France, at a privileged rate while funds to be repaid after the seventh year are loaned, much as Eximbank does now, directly to the buyer by a specialized government bank, Banque Francaise du Commerce Exterieur.

SENATOR PROXMIRE: One problem with the President's proposed "buy down" program that came out during your testimony was that the Bank proposes to finance the subsidy element out of its existing capital and reserves rather than by an annual appropriation from the Congress. As you know, I am increasingly concerned with the Bank's deteriorating equity position and introduced a bill last August that would require the Bank to seek annual appropriations to keep its capital position from eroding below $2 billion. The Congressional Budget Office, in commenting favorably on my bill, said that under ideal budget conditions an appropriation should be required for the present value of subsidies conveyed by current year commitments. As an administrator, don't you agree that CBO's comments make sense? Wouldn't it be wiser for the Bank to fund its interest "buy down" program through annual appropriations rather than by running down its dwindling reserves?

MR. DRAPER: Although we agree that subsidies conveyed by current year commitments should be disclosed, the method of funding these subsidies should be considered more carefully. Funding "buy downs" through an annual appropriation is not the best solution to the declining reserve problem facing Eximbank, especially appropriations determined on a present value basis. As Eximbank's capital base is not of an immediate concern, we feel that our operations should be funded in the same manner as in past fiscal years.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR HEINZ

FROM

Mr. H.P. GOLDFIELD, ASSISTANT SECRETARY FOR TRADE DEVELOPMENT, DEPARTMENT OF COMMERCE

1. Question: In 1982 testimony, Lionel Olmer noted that survey after survey listed financing as the number one need of U.S. exporters. If this is true, how can Commerce possibly fulfill its export promotion function with one of its major tools taken away?

Finding adequate and competitive financing has been, and continues to be, a foremost problem for U.S. exporters. Since Under Secretary Olmer's testimony in 1982, however, the situation has changed.

Eximbank lending to support U.S. exports is now competitive with foreign official financing. That is, Eximbank's lending is at interest rates that are identical to those provided by its foreign counterparts, and the scope of Eximbank lending has expanded to cover smaller sales. The proposed interest rate buy-down program will allow Eximbank to continue providing competitive financing at current levels.

The October 1983 revision in the international export credit guidelines also considerably improved the situation for U.S. exporters. This revision stipulated new market-related and automatically adjusting interest rates, thus eliminating most official export credit subsidies. As a result, many exporters can use private financing to support their sales when cost of financing is not determining and/or repayment terms are relatively short. While interest rates are falling, some customers may prefer floating interest rates over fixed rates in order to benefit from lower financing costs.

The Commerce Department continues to work at expanding U.S. exports and assisting U.S. exporters with their financing problems. Significant financing problems remain: credit subsidization has not been fully eliminated, and some problems (such as mixed credits) remain unresolved. However, exporters face a different set of problems today than in 1982, including the dollar exchange rate and the related budget deficit issue, differential economic growth rates among nations, and the debt problem of the developing countries.

2. Question: How can we defend aerospace, electronics, and telecommunications, among other advanced industries threatened by the loss of market share as the result of foreign subsidized credits in the absence of the direct credit program?

The Department of Commerce shares the Senator's concern about the future market share of U.S. advanced industries, as well as other industries. Some foreign governments have singled out the industries cited by Senator Heinz--aerospace, electronics, and telecommunications, among others-- for special promotional support as a matter of national policy.

The Administration's interest rate buy-down program that replaces Eximbank's lending should ensure that financing competitiveness for U.S. exporters will be continued. The new program is intended to provide the same final interest rates, at the levels stipulated under international export credit guidelines, as Eximbank is currently providing. The final financing terms and conditions delivered for U.S. exports should remained unchanged, although some Eximbank operating procedures may have to be adapted.

3. Question: Commerce participates in the credit negotiations at the OECD. What sort of credibility can the U.S. have without a direct credit program?

Foreign delegations to the export credit negotiations are aware of the strong interest of the Congress, the Executive Branch, and the U.S. exporting community in promoting U.S. exports within equitable international guidelines. They understand that the United States continues to seek to neutralize official credit as an element of competition in international trade.

At the December negotiations, foreign delegations were well informed on press reports about the elimination of Eximbank's lending programs. They also agreed that these reports were preliminary. Now that the Administration has made its proposed interest rate buy-down system public, there should be minimal or no effect on the credibility of the U.S. Delegation. Whether through Eximbank lending or through interest rate buy-down, the U.S. Delegation will have Eximbank's competitive resources backing it.

The U.S. negotiating position does not rest solely on Eximbank's ability to match foreign export credit practices. Many OECD governments wish to do away with credit subsidies because they too are hurt by the practices of a few governments. Given this common attitude as well as the Administration's budget request, we are confident that negotiating progress will continue to be made.

4. Question: Do Commerce Department economists predict that there will be an upturn in world trade? How do we service the large capital goods portion of the trade without direct credits?

Most economists estimate that world trade will continue to grow, but economic growth rates appear to have peaked. The OECD forecasts a slowing of world trade volume growth from 9 percent in 1984 to 6 percent in 1985.

U.S. exports of capital goods rose by only 7 percent in 1984, while imports rose by 46 percent. Growth in U.S. trade in capital goods for both exports and imports is expected to rise in 1985 at far slower rates, due to the slowing in the U.S. and foreign economic growth rates.

These overall estimates suggest that the U.S. capital goods sector can be supported adequately by the proposed Eximbank interest rate buy-down program.

5. Question: What alternative sources of financing are there? Are they adequate, particularly against officially subsidized export credit?

The alternative sources of financing are private lenders and U.S. Government and other official lenders.

Private financing sources include the Private Export Funding Corporation (PEFCO), commercial banks, and institutional lenders. PEFCO and commercial banks have participated in Eximbank's lending programs, although the latter have usually supplied supplementary credit at floating interest rates. Institutional lenders have provided relatively few funds in association with Eximbank lending.

With respect to official lenders, major sources of financing include the World Bank and similar organizations and the Agency for International Development (AID). They already finance a considerable volume of U.S. exports to developing countries.

The adequacy of private sources of financing against foreign officially subsidized credit depends on such factors as the level of private interest rates, the guideline rate applicable to the destination country of the export,

and the term of the repayment. However, it is now more feasible for alternative sources of financing to support U.S. exports than at any time during the past five years, since the current international guidelines have eliminated most of the subsidy element in official export credit. The proposed Eximbank interest rate buy-down program is designed to ensure that financing for U.S. exports is competitive.

With respect to specific private financing sources, PEFCO has long provided long-term, fixed-rate export financing under Eximbank's guarantee and no doubt will continue to play an important role under the Bank's new interest rate buy-down system. Commercial banks, to participate in Eximbank's interest rate buy-downs, may need to show flexibility in their customary operations to adapt to the particular requirements of long-term lending at fixed interest rates. Institutional lenders also will need to adapt their operations to the requirements of export financing. Efforts are now underway to work out the technical details on how to implement the new interest rate buy-down system.

AID financing is fully competitive, while financing by the World Bank and other multilateral agencies has not yet been addressed as an issue.

6. Question: What role has the Eximbank played in U.S. efforts to stimulate trade flows with the high debt LDCs?

The most widely publicized Eximbank effort to sustain U.S. trade flows has been the special credit facilities with Brazil, Mexico, and other countries. These facilities allowed U.S. firms to offer necessary credit and sent a positive signal to private lenders, thus contributing to a broad renewal of confidence in trade finance. Besides these special facilities, Eximbank also continued to finance U.S. exports under its regular programs to developing countries with relatively high levels of debt.

Further, Eximbank has encouraged borrowers to honor their debt obligations in an orderly way and in keeping with its statutory mandate to find a reasonable assurance of repayment. These efforts were fruitful and also contributed indirectly to renewed confidence in international lending to support trade.

7. Question: During the February 5 hearing Dwayne Andreas, Chief Executive Officer of Archer Daniels Midland, noted that he had discussed the issue of mixed credits with German officials. He was told in no uncertain terms by those officials that they had no intention of ever ending the practice of mixed credits, since it was a highly profitable practice from their point of view.

   Could you ask your economists at the Department of Commerce to do an analysis of the costs and benefits of mixed credits for the United States and explain how German Government officials could be so convinced of the benefit of this practice to their economy? Is their system different from ours, or do we simply analyze the problem differently?

We doubt that mixed credits are generally "highly profitable"; on the contrary, mixed credits are a costly form of trade promotion. However, we do not exclude the possibility of temporary commercial advantage in some individual cases.

A mixed credit with a 20 percent grant element (which is the lowest permitted) means that the lending government sacrifices 20 percent of the loan repayment as compared to a loan at hypothetical market rates and conditions. This grant element can be achieved by making a grant, or gift, equal to 20 percent of the price to the purchaser. Few products are worth such a discount for the sake of trade promotion. Mixed credits often carry higher grant elements, resulting in an even greater loss to the lending government.

Other methods of calculating the cost of mixed credits indicate a still greater burden for governments. On an accounting basis, for example, the repayments foregone may reach some 70 percent of the value of the export being promoted over the life of the loan. On a cash flow basis, repayments to the lender also are reduced.

Two additional effects relate to "market spoiling" and matching. Purchasers receiving mixed credits may become accustomed to the practice and require a mixed credit as a condition of any sizable purchase. This appears to be happening in some developing countries. Hence, the initiator country faces the prospect that future sales of the particular product or other products will need to be accompanied by costly mixed credits.

If the mixed credit is matched and the initiator still obtains the order because of price or product superiority, then the mixed credit presumably is unnecessary in the first place. If a matcher obtains the order, then initiating the mixed credit is ineffective. Mixed credit matching appears to be extensive and increasing, since exporters in all countries are reluctant to lose an order due to intervention by other governments.

In most cases, an order won with a mixed credit confers no lasting advantage to the initiating country. An initial equipment purchase does not necessarily lead to a later purchase from the same source. For a few products, however, equipment compatibility or other factors may give a particular supplier a definite product lead in a particular market. Even so, the advantage may last for only a few years.

In summary, initiating a mixed credit may preempt a particular export sale. Mixed credits may confer an advantage leading to follow-on exports in only a few cases. Gaining that advantage is costly for governments, may spoil markets, and will probably be matched by other governments. We know of no feature in the German financing system that would reverse the above analysis.

8. Question: Are you aware of any surveys that OMB has conducted to ascertain whether U.S. commercial banks will be willing to participate in a buy-down program, particularly one that requires fixed rates, at extended terms of 8 to 10 years? And if there has been no such study, where is the wisdom in scrapping an entire program that we know by experience will work, in favor of an untested, and indeed questionable, interest rate buy-down program?

I am not aware of any OMB surveys of commercial banks concerning their willingness to participate in an interest rate buy-down program. However, Executive Branch agencies have been in close touch with the financial community concerning its readiness to finance U.S. exports.

Eliminating Eximbank lending would eliminate the associated budget outlays and help curb the U.S. budget deficit. Replacing Eximbank lending with an interest rate buy-down system should result in little or no substantive change in the final delivery of U.S. financing for exports. There may be some change, however, in Eximbank operating procedures.

Senator HEINZ. Our final group of witnesses is a panel consisting of Mr. Dwayne Andreas, Mr. Donald McGraw, Mr. Dean Thornton, and Mr. Wayne Moore.

Thank you, Mr. Draper and Mr. Goldfield, for being with us. We appreciate your testimony.

Our first witness will be Mr. Dwayne Andreas of the Archer Daniels Midland Co. Mr. Andreas, we welcome you to the committee and we appreciate you being our leadoff witness on the panel.

STATEMENT OF DWAYNE O. ANDREAS, CHIEF EXECUTIVE OFFICER, ARCHER DANIELS MIDLAND CO.

Mr. ANDREAS. Thank you, Senator. Mr. Chairman, I want to thank you for letting me share my thoughts with this committee. I firmly believe that the issues you are considering are among the most important before this Nation.

NEED TO ACT MORE AGGRESSIVELY

What is involved is the whole range of export subsidies of which soft credit is just one. The views I express here will be my own, but they have been greatly influenced by what I have learned as the Chairman of the President's Task Force on International Private Enterprise. I am now more firmly convinced than ever that this country must act more aggressively in support of its own legitimate trading interests and that by doing so we can help not only ourselves but also the Third World and ultimately the cause of free trade.

In these opening few minutes I will not go into detail about mixed credits or Eximbank financing. I have asked that our task force "Mixed Credit Action Brief" be made part of my testimony. That action brief goes into great detail and the views and recommendations it sets forth are the ones I subscribe to wholeheartedly.

What I do want to do in these few minutes is to put in plain simple terms a few key points about why I believe it is so important that we take a more vigorous approach to promoting U.S. exports generally and to such matters as mixed credits and Eximbank financing specifically.

I find in dealing with complex issues more often than not the wisest course is the one that best passes the test of simple common sense. Last week we got the alarming news that our 1984 trade deficit was $123 billion. The question is: Will we heed the alarm? That trade deficit results partly from the strength of the dollar but also results from a stacked deck in a global poker game or, if I can change the metaphor, from a trade war in which we are fighting with one hand tied behind our back. Economists everywhere are waiting for the pendulum to swing back, believing that trade deficits are just a cyclical matter. It's not so. Unless we do something to overcome this problem, our trade deficits are going to go from bad to worse.

Some people argue that the way to narrow the trade deficit is to throw up protectionist barriers in order to keep out imports. I think that is the wrong way. The right way is to use our economic muscle to expand exports. What's at issue is not just access to our markets. It is competitive access to markets all around the globe.

In terms of international trade, the world has changed radically in recent years and that is why we have this new problem. Nations that were weak have become strong mercantile socialist states. Strong nations have become predatory in trade. We have seen the rise of new mercantilism so that our workers and our farmers compete today not against the workers and farmers of other countries, but against their governments' national treasury.

Let me give you some of the more outrageous examples of export subsidies at work.

First, the EEC spends $14 billion subsidizing the exports of farm products and processed farm products, manufactured goods. In one case the EEC buys sugar at 27 cents a pound and sells it on the world market at 4 cents, driving the price down, driving it down and killing the hopes of millions of people in Central America and in the Third World who should be getting three times as much for their sugar except for the export subsidies by the EEC.

Another case: Brazil produces alcohol in plants subsidized by the World Bank at the time of their construction, dumps it on the world market at far less than the cost of production, and then gives the buyer, secretly, 6 months credit with no interest.

France recently sold 700,000 tons of wheat to the Soviet Union at $17 less than the American price with an export subsidy of $22 a ton and favorable terms as well.

Italy is selling pasta. It's taken about 15 percent of the American pasta, spaghetti-macaroni market, buys the high quality wheat in North Dakota, ships it all the way to Italy, packages it, and sells it back here at less than the cost of buying the wheat and processing it.

Similar transactions are occurring all across the board in manufactured goods of all kinds. The basic question is: Do we care about maintaining this country's preeminence? We became the world's preeminent economic power by being competitive. If we lose that competitiveness, we lose it by not being competitive. If you do not care about the United States maintaining its preeminent economic position, disregard my testimony.

Under the cover of economic aid our trade competitors are using mixed credits in order to beat us unfairly where they could not win in fair competition. Some of these competitors are close friends and allies, but they don't let friendship get in the way of anything that might give them commercial advantage.

Now in a perfect world there would be no mixed credits, just as we wouldn't need armies or navies in a perfect world. But we don't live in that kind of world. Mixed credits distort markets, they are costly to the country providing them, and they lead to a misallocation of aid and distortions in the developing countries' priorities. They are an all-around bad thing. Most countries justify and dignify these schemes by calling them foreign aid. Long term, we should try to get rid of them. The question is: How and what do we do in the meantime?

We can do one of two things. We can sit back and take it and let our competitors run roughshod over us with their unfair trading techniques, which means for us unemployment and maybe depression. Or we can fight back. Talk won't do it. Talk is not achieving it. Our competitors have heard all the arguments. What they are

waiting to see is whether we're all talk and no action or whether we're going to take actions that will raise the cost and reduce the benefits to them of those unfair trading practices.

MIXED CREDITS AS A SHORT-TERM POLICY

The way to put an end to their mixed credits is to take the profit out of them. The absolute key to a national policy on mixed credits I believe is this, that we shun them as a long-term policy but adopt them now as a short-term necessity, and we make clear that one purpose of using them aggressively in the short term is to put an end to their use in the long term.

There's an exact parallel with arms control. We all seem to understand arms control in these terms. We know that we can't get an equitable military arms control agreement unless we have a powerful weapons system of our own to lay on the table. Our adversaries won't give up something they have that threatens us except in exchange for something that we have that threatens them.

By the same token, our economic competitors won't give up their mixed credit practices unless we have our own to lay on the table in exchange.

Winston Churchill once said, "We arm to parley." That's exactly what we have to do now if we are to restore anything like free trade which has practically disappeared from the face of the globe.

I can appreciate that the reluctance of Eximbank to get drawn too deeply into this kind of economically distorted trade practice. It goes against Eximbank principles and those principles are correct. But if we stick to our principles while our competitors stick to their guns, we are going to end up as casualties on the economic battlefield and our balance of payments will go further in the hole.

I see that there's now a proposal to stop Eximbank from making direct loans and to limit it instead to subsidizing loans made by commercial banks. It appears to me that the purpose clearly is to keep the loans from adding to our deficit in the way we keep our books. Of course, it would achieve that. But the reason the problem exists is that the Federal budget treats repayable loans as a current expense and charges it off just the same as a salary, or heat, or light bill. If my company or anyone's company kept its books in that way he would be in trouble with the law. The SEC would immediately charge him with deceiving his shareholders and creditors. Now the Government requires corporations to keep a separate capital budget, as it should.

Senator HEINZ. The witness' time of 10 minutes has expired. Can you summarize?

Mr. ANDREAS. Yes; I think that I had gotten pretty well through it. I wanted to say that I believe that this is an excellent time to adopt a capital budget. We have this in many phases of the Government, trying to do off-balance-sheet things in order to not face the deficit. I think one of the great things the administration could achieve in this term is to adopt a sensible capital budget like the rest of the business world and capitalize assets of this kind.

[The complete statement, brief, and executive summary, follow:]

STATEMENT DELIVERED BY

MR. DWAYNE ANDREAS

CHAIRMAN AND CEO

ARCHER DANIELS MIDLAND COMPANY

before the

SENATE BANKING COMMITTEE

February 5, 1985

Mr. Chairman, thank you for letting me share by thoughts with this Committee. I firmly believe that the issues you are considering are among the most important before the nation.

The views I express will be my own. But they have been greatly influenced by what I learned as Chairman of the President's Task Force on International Private Enterprise. I'm now more firmly convinced than ever that this country must act more aggressively in support of its own legitimate trading interests, and that by doing so we can help not only ourselves but also the Third World and ultimately the cause of free trade.

In these opening few minutes I won't go into detail about mixed credits or Ex-Im financing. I have asked that our Task Force's Mixed Credits Action Brief be made part of my testimony. That Action Brief goes into great detail, and the views and recommendations it sets forth are ones I subscribe to wholeheartedly.

What I do want to do in these few minutes is to put in plain, simple terms a few key points about why I believe it's so important that we take a more vigorous approach to promoting U.S. exports generally and to such matters as mixed credits and Ex-Im financing specifically. I find that in dealing with complex issues, more often than not the wisest course is the one that best passes the test of simple common sense.

Last week we got the alarming news that our 1984 trade deficit was $123 billion, almost double the previous all-time high. The question is, will we heed the alarm? That trade deficit results partly from the strength of the dollar. But it also results from a stacked deck in a global poker game--or if I can change the metaphor, from a trade war in which we're fighting with one hand tied behind our back.

Economists everywhere are waiting for the pendulum to swing. Trade deficits are thought to be cyclical. Not so. Unless we do something, our trade balance will go from bad to worse.

Some people argue that the way to narrow the trade deficit is to throw up protectionist barriers in order to keep out imports. That's the wrong way. The right way is to use our economic muscle to expand exports. What's at issue is not just access to our market. It's competitive access to world markets.

In terms of international trade, the world has changed radically in recent years. Nations that were weak have become strong. Strong nations have become predatory. We've seen the rise of a new mercantilism--so that our workers and farmers compete not against the workers and farmers of other countries, but against their governments' national treasuries. The EEC has $14 billion in export subsidies covering wheat, sugar, flour and processed products.

Let me give you three more outrageous examples:

1. The EEC buys sugar at 28 cents a pound and sells it for six cents, at a loss of $1 billion dollars a year--driving the price down and crushing the hopes of millions of people in sugar producing countries of the Third World.

2. Brazil produces alcohol in plants subsidized by the World Bank, dumps it on the world market at far less than the cost of production, and gives the buyers--secretly--six months' credit at no interest.

3. France recently sold 700,000 tons of wheat to the Soviet Union at $17 a ton less than the American price, with an export subsidy of $22 a ton.

Similar transactions are occurring across the board in manufactured goods of all kinds.

The basic question is: Do we care about maintaining this country's pre-eminence? We became the world's pre-eminent economic power by being competitive. If we lose that pre-eminence, we'll lose it by not being competitive.

Under the cover of economic aid, our trade competitors are using mixed credit sleight-of-hand in order to beat us unfairly where they could not win in a fair competition. Some of these competitors are our close friends and allies. But they don't let friendship get in the way of anything that might give them a commercial advantage over us.

In a perfect world, there would be no mixed credits--just as we wouldn't need armies or navies. But we don't live in a perfect world. Mixed credits distort markets, they are costly to the country providing them, they lead to misallocation of aid resources and distortions in developing country priorities. They're an all-around bad thing. Long-term, we should try to get rid of them.

The question is, how? And what do we do in the meantime?

We can do one of two things. We can sit back and take it, and let our competitors run roughshod over us with their unfair trading techniques which means for U.S. unemployment and depression. Or we can fight back. Talk won't do it. Our competitors have heard all the arguments. What they're waiting to see is whether we're all talk and no action, or whether we're going to take actions that will raise the cost and reduce the benefit to them of those unfair trading practices. The way to put an end to their mixed credits is to take the profit out of them.

The absolute key to a national policy on mixed credits, I believe is this: that we shun them as a long-term policy, but adopt them as a short-term necessity; and we make clear that one purpose of using them aggressively in the short term is to put an end to their use in the long term.

There's an exact parallel with arms control. We know that we can't get an equitable military arms control agreement unless we have powerful weapons systems of our own to lay on the table. Our adversaries won't give up something they have that threatens us except in exchange for something we have that threatens them. But the same token, our economic competitors won't give up their mixed-credit practices unless we have our own to lay on the table in exchange.

Winston Churchill once said that "we arm to parley." That's exactly what we have to do now if we're to restore free trade.

I can appreciate the reluctance of Ex-Im to get drawn too deeply into this kind of economically distorting trade practice. It goes against Ex-Im's principles, and those principles are right. But if we stick to our principles while our competitors stick to their guns, we're going to end up as casualties on the economic battlefield.

I see that there's now a proposal to stop Ex-Im from making direct loans, and limit it instead to subsidizing loans made by commercial banks. The purpose clearly is to keep the loans from adding to our deficit.

The reason the problem exists is that the Federal budget treats a repayable loan as a current expense, the same as salaries or heat and light. If my company kept its books that way I would be in trouble with the law. The Security Exchange Commission would charge that we were deceiving our investors. The government <u>requires</u> corporations to keep a separate capital budget--as it should. So should the Federal government. Instead of making bad policy to fit outdated budget practices, fix the budget practices. Adopt a capital budget and carry the loans as an asset. Keep Ex-Im in the direct loan business.

In Ex-Im we have $14 billion of economic muscle to use in the high-stakes game of international trade. Ex-Im does a good job, and it more than pays its own way. We should use its muscle more, not less. Loans, even at cut rates, to expedite exports produce profits for the budget in less employment insurance and more tax collections.

What's at stake is not only the thousands of American jobs that depend on threatened exports. What's at stake is America's economic pre-eminence--and in turn, America's military pre-eminence and therefore our own security and the free world's security.

We'll do other nations no favor if we so weaken ourselves economically that we lose our leadership politically and militarily. And we can't long play the role of goat in international trade and at the same time remain the economic leader of the world.

We've spent too long apologizing for our economic strength. What we've got to do now is to preserve that economic strength--not just for our own sake, but for the world's sake. We should ask ourselves: is the world better off--is it safer--with the United States as the number one economic power? Would another nation use that power more responsibly, more generously? If so, which one?

We've become more than a beacon of freedom. We're the bulwark of freedom. And only if we maintain our economic leadership can we keep that bulwark strong, and only if we keep that bulwark strong can we keep the beacon bright.

Mr. Chairman, thank you very much.

Mixed Credits Action Brief

The President's Task Force on International Private Enterprise

The United States must strengthen its position in negotiations to end unfair trade finance competition. The Export-Import Bank should operate up to its $4 billion lending authority and $10 billion guarantee authority to counter predatory trade practices and provide equivalent support to U.S. exporters.

December 1984

In May 1983, at a time of severe international economic turbulence, the President established the President's Task Force on International Private Enterprise. The President requested that the Task Force identify ways to strengthen the economies of developing nations. In particular, the President asked the Task Force how U.S. foreign assistance could be used to stimulate private enterprise development and promote investment in and trade with developing countries.

In our report to the President, we proposed a number of specific program and organizational changes. We have tried to be diligent in finding the best means to translate policy into action. To this end, we have prepared the following "action brief" that elaborates on a major recommendation of the Task Force, countering mixed credits and other predatory trade practices.

This action brief can also be found as an appendix to the report to the President. If you wish a copy of the entire report, please contact:

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Action Brief

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Introduction

Exports are increasingly important to the United States economy. One tenth of our national income stems from trade; 20 percent of our work force depends on trade for its livelihood. Forty percent of our agricultural production is sold abroad; one third of our corporate profits are generated by international operations.

Every major trading country except the United States has undertaken serious efforts to achieve international competitive dominance in one or more industrial export sectors. These efforts are also evident in the agricultural sector, an increasingly important segment of U.S. trade. U.S. markets at home and abroad have been major casualties. Costs to U.S. industry have been severe in terms of employment and profits. Industries in which the United States was totally dominant only a few years ago are increasingly threatened by carefully targeted, subsidized foreign competition. These industries include commercial aircraft and other transportation equipment, machine tools, computer chips, electric and nuclear power, and a growing list of high technology industries.

Various countries have targeted different industries in which to become competitive. Common to them all, however, is a governmental effort that is both well-funded and well-coordinated. Their efforts are based on three important realizations: (1) that new international markets are becoming increas-

ingly scarce; (2) that some form of price break or other financial inducement may tip the balance toward a particular seller for Third World buyers; and (3) that the key to future sales is market penetration today—a toehold in a new market today may be parlayed into a captive market tomorrow.

Each of the governments that has joined this competition has developed and is actively implementing aggressive commercial strategies to insure its success: specific domestic industries such as steel, telecommunications, and energy have been targeted for the export push; direct subsidies have been applied to research and development activities; and preferential financing subsidies have been undertaken to spur the private sector to concentrate its effort on penetrating, pre-empting, and capturing new markets. In many cases, initial successes in winning bids provide suppliers with substantial advantages in future competition for expansion or new projects in the same sector because the exports targeted for support are large capital projects. Increasingly, the victims of these predatory, trade-distorting practices have been U.S. suppliers who have been unable to match the officially supported financial terms offered by foreign competitors.

We now stand at a crossroads in trade and finance policy. The concessional export financing practices of other governments for commercial advantage continue to increase, despite more than a decade of multilateral negotiations to brir g the growing export credit struggle to a halt.

The international competitiveness of U.S. industries with true comparative advantage—industries in the energy and high technology areas, for example—is declining, in large measure because the United States has refrained from meeting and neutralizing the aggressive promotional practices of other countries. Without the ability to sell abroad, remain on the cutting edge of vital technologies, and maintain economic prosperity at home, U.S. industry will continue to falter, thereby imperiling not only our growth, employment levels, and profits, but our national security as well. In the final analysis, a sound and thriving economy will have as much to do with our world position as will the state of the arms balance.

The most damaging subsidy scheme in recent years, from the perspective of its harm to U.S. producers and exporters, has proven to be "mixed credits." Initially, mixed credits were defined as a blend of concessional government resources with public and/or private commercial credits that had the effect of reducing the real cost of an export to the buyer—often to a point where the price was below the cost of production. Recently, the term has been generally expanded to encompass official export financing subsidies for commercial purposes rather than development purposes, whether by a single source or combination of sources. These government subsidies for commercial gain are costly. They distort trade patterns and reduce competition.

The United States can and must adopt a program that enables U.S. exporters to finance the sale of U.S. goods and services on terms that are competitive with the subsidized terms offered by the governments of our aggressive trade competitors. This assistance should be carefully targeted against predatory official efforts to capture existing U.S. markets and to pre-empt and lock up new markets. The assistance should be focused on sectors of the U.S. economy in which American industry is clearly competitive with nonsubsidized foreign competition.

To meet the mixed credits challenge, the U.S. must: increase its efforts to negotiate an end to these widespread trade finance subsidies for commercial advantage; and, in support of this negotiating position, provide funding and formulate clear policy guidelines to counter and neutralize the predatory official activities of competitors.

The basis of a program to meet this unfair competition is laid out on the

following pages. The program can be undertaken immediately without need for additional funding or increased authority and can be built on existing institutional arrangements. It should be continued as long as necessary to convince U.S. competitors that reliance on market forces, without the use of government subsidy, is a better way to increase trade and achieve worldwide growth and prosperity.

Background

DEFINITION AND CONTEXT

Official export promotion efforts consist of a wide array of governmental programs in financing, insurance, guarantees, taxation, commercial reporting, and market development. All exporting countries, including the United States, provide various forms of export promotion to expand markets and increase sales. They also provide concessional export financing for developing countries that require imports to meet critical development needs. In recent years, however, the distinction between acceptable export promotion practices and development assistance efforts has been blurred, particularly in the use of mixed credits.

Current international conventions provide for commonly accepted and agreed upon financial practices and terms for official export financing. They also provide methods for defining concessionality as applied to interest rates and terms. Unfortunately, however, they only narrowly define the range of unacceptable financing techniques used by countries to subsidize exports for commercial purposes. A wide range of commercially oriented subsidized financing activities escapes official notice because of this narrow approach.

Various types of mixed credits have come under some international scrutiny, but, as with other extraordinary export support measures, not enough effort has been expended to carefully define, monitor, and regulate their use. Consequently, there is some confusion in official and business circles concerning both the nature and extent of the mixed credits practice.

Mixed credits, taken broadly, include all of the following types of credit practices.

(1) *Cofinancing:* a mix of public capital (sourced from different public entities) or public and private capital in a single export transaction.

(2) *Joint financing:* a cofinancing arrangement for which there is a common list of goods and services and where financing of all or certain items are shared between colenders in agreed proportions.

(3) *Parallel financing:* a cofinancing arrangement in which each colender finances different goods and services or distinct parts of a project.

(4) *Associated financing* (as defined by the Development Assistance Committee of the Organization for Economic Cooperation and Development): transactions that associate, in law or in fact, some combination of Official Development Assistance (ODA), other official finance with a grant element of at least 20 percent, and official private export credits or other official flows at or near market terms.

(5) *Tied aid credits:* a credit that is provided for development aid purposes and is financed either exclusively from public funds or partly from public and partly from private funds.

Most official international mixed credits attention is focused on combinations of financing rather than a single export credit. In any event, whatever term is used, the use of these or any other concessional export financing techniques, principally for commercial rather than for development purposes, distorts international trade and is detrimental to the development process and the world's trading system. Other countries are using a wide variety of these techniques.

Countries offer numerous reasons for

using mixed credits: to help their trade balance; to support the growth and development of specific domestic industries; to relieve domestic unemployment; to improve efficiency in specific industries through increased economies of scale; to increase the availability of cheap credit for the developing world; to leverage greater financial flows to the developing countries without undue restrictions on their use; and to provide aid at concessional rates to advanced developing countries (ADCs), like Colombia and Brazil.

Whatever the reasons, available evidence shows that an increased use of mixed credits tends to shift scarce ODA funds from the poorest countries to higher income developing countries. Further, mixed credit financing can divert ODA from the recipient country's highest priority development projects because mixed credits frequently go to sophisticated, capital-intensive projects that may not be at the top of the recipient country's development agenda.

Where legitimate development needs are served, use of concessional mixed credits may be appropriate. However, the record indicates that the domestic economic considerations of donors are usually the controlling factors in these decisions. The direct costs to the donor countries—and to the world's trading system—are great. For these reasons, the United States must continue to press for the elimination of all forms of government export subsidies for commercial purposes.

THE ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT ARRANGEMENT ON MIXED CREDITS

In February 1978, the United States and 21 other OECD countries reached agreement on principles to govern the use of export credits, including tied aid credits. Under that agreement—the OECD Guidelines for Officially Supported Export Credits (Arrangement)—the 22 signators agreed to apply common credit terms to various classes of importing countries. The Arrangement is a "gentleman's agreement" that is applicable to officially supported export credits with repayment terms of two years or more.

The principal purpose of the Arrangement is the reduction and eventual elimination of trade-distorting export credit subsidies as well as the promotion of international trade on the basis of price competition and quality considerations.

Tied aid credits usage is permitted by the Arrangement in accordance with specific guidelines. Moreover, the participants have agreed to terms for reporting derogations and for matching the nonconforming credits of both derogating participants and nonparticipants.

The guidelines include:

- ☐ considering credits with a grant element above 25 percent as Official Development Assistance (ODA) rather than as commercially oriented trade credits;
- ☐ notifying other participants promptly after commitment when a tied aid credit with a grant element above 25 percent has been offered;
- ☐ refraining from offering tied aid credits with a grant element of less than 20 percent; and
- ☐ notifying other participants 10 days before commitment, when planning to offer a tied aid credit with a grant element of at least 20 percent, but less than 25 percent.

Once notification of such an offer is given, other participants have the right to match, identically or through other means, the terms of the credit. If matching results in new derogations, further time extension for discussion and action by participants also apply.

The Arrangement definition of mixed credits is far too narrow and the Arrangement reporting guidelines are far too incomplete to capture the true nature and extent of the mixed credits problem. Many types of mixed credit transactions escape proper reporting and scrutiny. Thus, parallel financing

undertakings between a government entity and a private capital source, in which a package of exports are disaggregated and financed separately by each colender, would escape the Arrangement's reach and probably go unreported. This technique is commonly practiced by various countries. Moreover, many of the reports do not include enough information to be of use, either for matching by other participants or for gauging the extent of the problem. The United States has been trying to tighten up the agreement by increasing the grant element subject to prior notification, by increasing the size of the grant element necessary to be considered ODA, improving the amount and quality of reporting, and various other means. Some progress has been made, but many subsidy practices are not covered by the Arrangement and the incidence of mixed credit offers and financing continues to increase.

EXTENT OF THE PROBLEM

Hard data are not available covering the broad spectrum of activities we consider concessional mixed credits. Some countries, such as Sweden, use mixed credits as an integral part of their aid program. Some tied credits are offered in such a way that the subsidy is not directly linked to the commercial credit, others are not reported for various reasons. Countries are extremely clever in finding ways to meet the letter of international obligations while continuing to engage, for practical purposes, in what they have agreed not to do. In 1983, less than 20 percent of offers reported by Arrangement participants were in the agreed guideline range of a 20-25 percent grant element, 30 percent of the offers were in the 25-30 percent grant element range, 20 percent had a grant element "greater than 25 percent," and most of the remainder had a grant element in excess of 30 percent. This high concentration just outside the agreed upon range is a clear indication that some countries are using the definition of ODA as a disguise for commercially oriented trade practices. These unfair trade practices are hurting U.S. exporters.

Data assembled by the Export-Import Bank show that the number of mixed credits agreements offered by industrialized countries has continued to rise rapidly since 1980. The number of offering countries has also risen. Mexico, South Korea, and other Advanced Developing Countries, in addition to the traditional donor community, have begun to offer mixed credit financing. The dollar value of mixed credits offered rose significantly until 1980, remained constant at just over $2 billion annually through 1982, and increased to $3.5 billion in 1983. Mixed credit use continued at that pace into 1984.

Because of definitional limitations, these figures probably understate the incidence of mixed credits. Additionally, however, many experts believe that countries underreport either deliberately or through administrative carelessness. It is highly probable that the amount reported would increase significantly if our broader definition of mixed credits were used. Of importance, too, is the fact that mixed credits are often concentrated in certain heavily subsidized industrial sectors. Thus, the trade-distorting effects of the credits may be far greater than published data indicate. While OECD reports are not complete on this point, the data suggest this may be particularly true in the power and transportation sectors.

France has offered over 50 percent by value of all reported mixed credits. The adoption of "defensive" mixed credit programs by Canada, Japan, Germany, and others has not led France to reduce its activity. While France has cut the size (in dollars) of its mixed credit offers since 1980, the number of offers in 1983 was almost triple the 1980 level.

Most of the countries that are the principal recipients of mixed credit offers are actual or potential Eximbank customers. Six of these countries stand

out in terms of dollar volume: Mexico, Brazil, Egypt, Morocco, Indonesia, and India. All except Morocco are significant U.S. export markets.

U.S. Response to Date

[redacted]

NEGOTIATING POSITION

The U.S. Treasury Department considers trade-motivated subsidized export financing wasteful, costly, and ultimately futile because it causes a budgetary drain on exporting countries, with no real trade or development advantage to show for it. U.S. Government policy is that exported goods and services should be sold on the basis of price, quality, and other intrinsic merit. To do otherwise is to neglect the marketplace and distort international trade patterns.

Consistent with this position, the United States has attempted to negotiate an end to the use of those mixed credits used primarily for export promotion. In December 1983, for the first time, mixed credits were the highest priority item on the agenda in negotiations on the OECD Arrangement on Export Credits. The United States made a number of proposals, as it has over the years, designed to expand the definiton of mixed credits, to make their use more evident and to further restrict their use. The United States has taken positions consistent with this in other international negotiations as well. Progress has been limited and prospects for an early or even medium-term breakthrough do not appear to be good.

At the OECD Ministerial meeting in May 1984, the United States attempted to secure agreement to prohibit grant elements below 50 percent, a hefty increase above the current limit of 25 percent. This would have made mixed credits for commercial purposes much more expensive for the offering government. However, the United States received virtually no support for this position from the other members.

There are reports that the United States was preparing a new series of proposals to present to the export credit group of the OECD at a September 1984 meeting that was postponed. Reportedly, the proposals could limit the provision of mixed credits only to countries with lower income levels, apply the proposed 50 percent grant element only to selected high technology industries and perhaps others. We support this U.S. position and believe the United States should continue to press for adoption of these and other proposals that will reduce or eliminate these unfair practices. However, we are not optimistic about the chances for successful negotiations on these points; furthermore, we are not convinced that, even if successful, a new Agreement will stop the practice. The high incidence of offers outside the limits of the agreement in recent years is discouraging to us. The United States needs to underscore its negotiating strategy with an aggressive mixed credits program that will demonstrate the futility of continuing these predatory trade tactics.

PAST ACTIVITIES OF THE EXPORT-IMPORT BANK AND AID

Before 1981, Eximbank selectively matched the interest rate subsidy on mixed credits offered by others, winning some deals for U.S. business. However, the U.S. Government did not find this approach to be effective in developing negotiating leverage and the practice ceased. In October 1982, the Eximbank introduced a medium-term credit program to provide fixed rate support for those medium-term export sales up to $5 million that are facing subsidized, officially supported export credit competition from abroad. With evidence of the competition, Eximbank can provide fixed rate financing to the U.S. bank financing the export sale. Eximbank has, in some cases, offered to extend grace periods and repayment terms as a way to counter interest rate subsidies offered by competitors. This is considered to be

an effective negotiating tactic because of the superiority of U.S. capital markets as a source of long-term capital. However, Eximbank has not aggressively sought out opportunities to counter subsidized credits.

In 1982, AID adopted a policy on mixed credits that delineated their use for export financing. The policy recognizes that other donors actively use mixed credits. AID agreed to consider financing mixed credits using ESF funds, but only to counter specific offers and only in specific cases in which the project has a high priority in the recipient country's development. AID also adopted a program to meet mixed credit competition in Egypt, specifically allocating funds for that purpose. However, restrictions placed on the use of funds, including the requirement for evidence of concessional competing offers, are very tight.

Shortly before the OECD Ministerial meeting in May 1984 the Export-Import Bank made two mixed credit offers in response to competing mixed credit offers from France. One was to finance the sale of machine tools to Indonesia, the other to finance the sale of telephone switching equipment in Cyprus. Since that time, Eximbank has made a small number of additional offers of mixed credit financing in response to offers made by other countries.

The Indonesia sale demonstrates the high cost of this type of activity. It was a $15 million contract by a U.S. manufacturer. Over the life of the contract, Eximbank income will be reduced by $16 million compared to the income that would have been generated by its normal rates. The Eximbank subsidy amounted to 40 percent of the contract price; cost per job created was $47,500. This subsidy cost is in line with estimates of the Congressional Budget Office on the overall cost of mixed credits.

CURRENT LEGISLATIVE GUIDANCE

In November 1983, Congress passed legislation that extended the financing authority of the Export-Import Bank and provided guidance on mixed credits and Eximbank's operating policy. The legislation emphasized Eximbank's mandate to provide export financing that is fully competitive with that offered by other countries. It directed the executive branch to take two specific actions. First, the legislation directed the President to pursue vigorously international negotiations to limit and set rules for the use of tied aid for exports. Specified negotiating objectives were in line with already existing government positions. Second, the legislation directed AID and the Export-Import Bank to establish mixed credit programs competitive with those of other exporting nations. Mixed credit offers under these programs are to be coordinated by an interagency committee and require the unanimous consent of its members.

Congress made it clear that it wants the United States to be more aggressive in meeting unfair financing competition from other exporting countries.

Eximbank and AID have developed standards and guidelines for the programs called for by Congress. AID's program is proposed to extend to a limited number of countries because of other legislative requirements. The Eximbank plans to act on a case by case basis, using both interest rate concessions and improved terms as necessary to meet competition. By terms of the legislation, the National Advisory Council must pass on each transaction. Substantially increased activity from either Eximbank or AID in support of U.S. exports is unlikely, however, for the following reasons.

- Concessional terms are very expensive to the Eximbank and it wants to maintain its commercial standing.
- AID's primary interest is in carrying out its development mandate in those countries in which it operates and in assuring that any use of its Economic

Support Funds be consistent with the economic, security, and political criteria used to establish ESF country allocations.

☐ The principal recipients of mixed credit offers are countries in which AID has little or no activity.

☐ AID believes that the unqualified use of mixed credits could divert its assistance from the neediest countries and from a recipient's highest priority projects.

☐ The interagency coordination process is bureaucratic, time-consuming, and not suited to the pressing needs of timely action.

Findings

☐ The United States and its exporters are losing markets to countries that provide concessional credit to their exporters for commercial purposes.

☐ Past U.S. Government actions to meet commercially motivated subsidized financing competition have been limited and ineffective.

☐ The U.S. negotiating posture in regard to mixed credits is essentially right, but it is not likely to be effective in the short to medium term.

☐ U.S. Government agency responses to the initiatives directed by Congress have not resulted in a significantly more aggressive stance by the United States.

☐ A new approach is needed in order to support U.S. negotiating efforts and permit U.S. exporters to compete on equal financing terms with exporters from other countries who benefit from officially subsidized financing.

If recent history is any measure, progress in negotiations in the near future is likely to continue to be slow and indecisive. Recent steps taken by the DAC to broaden the range of mixed credit activities proscribed by international agreement are welcome. Welcome, too, is France's recent decision to withdraw a line of credit to Algiers for subway construction. But we must maintain the effort to negotiate an end to this expensive and wasteful practice.

Recommendations

The United States should assign the highest priority to negotiations directed at stopping the practice of governments using various methods of subsidizing export finance to commercial advantage.

We strongly endorse the Administration's policy to put an end to these subsidies, which are costly, wasteful, and ultimately gain nothing for those nations that engage in the practice. Goods and services should move in international commerce according to their intrinsic value and the marketing effort behind their sale; subsidized financing does not contribute to their value, nor does it lead to the eventual reduction of production costs. To the contrary, it enables the movement of goods that might otherwise find no market. This does not promote the best interests of either buyer or seller; in the long run, continued use of mixed credits will have an adverse effect on the growth of trade, the world's economy, and prospects for improved living standards.

The United States should actively discourage the use of mixed credits and other forms of commercially motivated subsidized financing in the appropriate multilateral fora and in bilateral discussions with those nations that engage in the practice.

The United States should be prepared, up to the limit of Eximbank's lending and guarantee authority, to fund an aggressive program of subsidized export financing to meet the competition of other countries. The program should remain in effect until other countries discontinue their mixed credit programs.

The Export-Import Bank is the principal official financing arm of United States trade policy and is specifically charged with promoting U.S. exports "at rates and on terms and conditions that are fully competitive with other countries and consistent with interna-

tional agreements." Eximbank finances exports to many countries that are recipients of mixed credit offers. A program to compete directly against a broad range of unfair mixed credits would be consistent with the bank's mandate to be competitive, but it would be inconsistent with its mandate to remain financially sound, as large amounts of concessional financing would lead to losses on the bank's portfolio. However, existing authority is adequate for Eximbank to undertake such a program immediately: new legislation would not be required.

Eximbank has substantial unused financing authority and total financing ceilings that should be sufficient to accommodate any activity that is likely to be generated by this program. In FY 1983 it used less than $1.5 billion of its nearly $4 billion lending authority and less than $7 billion of its $10 billion guarantee and insurance authority. Lending, guarantee and insurance authority for 1985 are expected to be in the same order of magnitude. A similar shortfall is likely in 1984. Unused ceilings on Eximbank's lending authority totaled several billion dollars.

Other U.S. institutions such as AID would not be as effective in a mixed credits program. AID has strong developmental mandates in which trade and export promotion are not key factors. In addition, AID has limited resources that are primarily devoted to countries to which mixed credits are not directed. Legislation would be required to thrust AID into a strong trade promotion role. Not only would start-up time be longer with AID, but the institutional difficulties would be extensive.

EXPORT-IMPORT BANK

Amount Required

Available data do not provide a solid basis for estimating the funds that might be required. Eximbank believes that 13 export transactions valued at $576 million may have been lost to foreign mixed credits (narrow definition) over the four-year period from August 1979 to August 1983, an average of almost $150 million per year. Documentation for lost sales is very difficult to produce because there is no effective way to collect the necessary data. In recent years, the amount of mixed credit offers by other countries has averaged about $2 billion per year. It increased to $3.5 billion in 1983 and will be at least that amount in 1984. Estimates of lost exports and mixed credit activity generally would probably be much higher if they were based on a broader definition of mixed credits—one that reflects the full range of commercially oriented subsidized financing techniques used by our foreign competitors. This, in addition to underreporting, might well double the reported $3.5 billion.

COST TO THE UNITED STATES

According to estimates of the Congressional Budget Office, the cost to the Eximbank in lost interest over the life of a credit, when used to match a competing mixed credit with a 25 percent grant element, would be about 40 percent of the face amount of the loan. As an example, the use of $1 billion a year for mixed credit financing would therefore reduce Eximbank income by approximately $400 million over the life of the loans or about $40 million per year. These losses would not be recovered.

This $40 million annual loss of income to Eximbank would be a small fraction of its annual interest income, which amounted to more than $1.4 billion in FY 1983. However, its net losses of $247 million in FY 1983 would increase further if this loss of interest from a mixed credit program had also been reflected in the bottom line.

Criteria for Use

The purpose of this more aggressive stance would be to counter the use of subsidized mixed credit financing (in its broad meaning) by export competitors. The difficulties with data collection already enumerated will be much worse

when facing the need for quick action to meet a competitive offer. Guidelines for the program need to be established so that exporters and bankers have a clear understanding of when, and under what circumstances, Eximbank funds can be drawn upon.

Although they need further definition and refinement, the following criteria provide an initial framework.

☐ Eximbank should offer financing to U.S. exporters that will enable the exporters to compete on equivalent terms with exporters from other countries who benefit from commercially oriented concessional credit (mixed credits). In some cases, Eximbank may provide identical financing packages; in other cases it might include some other combination of down payment, rate, term, and grace period concessions that would be equal, but not superior, to the competing financing.

☐ Eximbank should aggressively counter competing offers. For instance, in qualified cases in which Eximbank believes there will be mixed credit competition, it should use the prior notification procedures under the OECD Arrangement to query the country in question about its intent. If the country involved uses mixed credits extensively and does not provide a clear negative response to the query, Eximbank should be directed to operate on the assumption that a mixed credit package will be offered and it should provide appropriate financing to the U.S. exporter. In other cases, Eximbank may have to make judgments about the intent behind competing offers—whether the principal motivation is commercial or developmental.

☐ All operations undertaken should be consistent with U.S. responsibilities under the OECD Arrangement, which permits matching of competing offers, and with other U.S. international commitments.

☐ Eximbank should pay particular attention to those products of competing countries that have benefited most from mixed credits, such as telecommunications, power, and transport equipment firms. However, it should not exclude any products in which U.S. exporters can be price-competitive.

☐ Eximbank should not exclude products that are in world oversupply, such as copper or steel processing equipment, because to do so would be tantamount to announcing that the United States is leaving the field to others. However, it is current U.S. policy not to finance such exports. We do not quarrel with the policy. Our clear preference would be to avoid these areas, but given the needs of the program, flexibility may be required.

Summary

The Eximbank program can be implemented now. It is needed to make U.S. exports competitive with the subsidized commercial exports of our competitors. It will improve the U.S. negotiating position by trying to eliminate commercial export subsidies. It will serve U.S. exporters and the national interest. The President should direct the Export-Import Bank to undertake such a program immediately and continue it until our competitors stop using these predatory and expensive practices.

Executive Summary

The President's Task Force on International Private Enterprise

December 1984

In May 1983, at a time of severe international economic turbulence, the President established the President's Task Force on International Private Enterprise. The President requested that the Task Force identify ways to strengthen the economies of developing nations. In particular, the President asked the Task Force how U.S. foreign assistance could be used to stimulate private enterprise development and promote investment in and trade with developing countries.

The following summary includes the major findings and recommendations of the Task Force.

If you wish a copy of the entire report, please contact:
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The United States now faces the challenge of leading the world to a new era of prosperity created, in significant part, by unleashing the dynamism of the private sector in the Third World. Meeting this challenge successfully is a matter of our own long-term national security and is the direct requirement of a world grown more interdependent. As they have in the past, U.S. economic policies will continue to reflect and be dictated by traditional humanitarian concerns.

We believe that the United States and developing countries share a vital interest in Third World economic development, that economic growth can best be achieved through the development of the private sector, and that economic growth provides a necessary base for long-term political stability.

Among the Task Force's general recommendations are the following.

☐ **Elevate international economic policy to a level comparable to national security.**

In the world of the twenty-first century, the security of the United States and of developing nations will depend increasingly on how well our economies interact. One of the critical determinants of our security will be the degree of our success in sharing our economic strength with the developing world. This will also require giving heightened significance to international economic policy and devising ways to share our economic know-how with developing countries.

☐ **Establish an Economic Security Council.**

Responsibility for the formulation of international and domestic economic policy is fragmented, with portions scattered throughout the U.S. Government. A well-coordinated U.S. economic policy would mean more jobs, increased exports, and increased stability at home and abroad. We propose the creation of an Economic Security Council, responsible for formulating, coordinating, and integrating international and domestic economic policies. Some of the matters with which such a council would deal are the debt crisis, trade and agricultural policy, technology transfer, and foreign assistance.

☐ **Expand Opportunities for Private Enterprise.**

The private sector in developing countries is hampered not only by the lack of capital and the lack of technology and management skills that accompany direct investment, but also by the absence of positive government policies toward entrepreneurship. By urging, encouraging, and using our resources to help developing countries adopt policies that attract foreign direct investment and by helping businesses identify investment opportunities in the Third World, we can make a crucial contribution to the economic development of those countries. The Task Force's *Private Enterprise Guidebook* provides specific advice on how to use U.S. resources to attract foreign and local investment.

☐ **Reorient U.S. foreign aid programs.**

Perhaps the greatest paradox in our foreign aid programs has been that while U.S. economic success is based upon private enterprise, we have done far too little to help developing countries attract private enterprise, trade, and investment. U.S. foreign assistance programs should substantially expand their efforts to help developing countries adopt policies that will strengthen the opportunities for private enterprise. To the maximum extent feasible, the U.S. Government should not channel its foreign assistance resources to governments, but to the private sector in developing nations. For the mutual benefit of the United States and developing countries, the U.S. Government should also integrate its foreign assistance and trade programs and policies to make better use of its resources. The Task Force's action brief on strengthening AID's private enterprise thrust and its *Private Enterprise Guidebook* will serve as a blueprint for this reorientation.

☐ **Press for Increased Trade Flows.**

American firms increasingly find themselves competing overseas with foreign firms that are supported by their national treasuries. Not only are U.S. companies losing large amounts of business to mercantilist nations that provide heavy subsidies to their firms, but these practices distort the whole pattern of international trade to the detriment of the United States, developed countries, and developing countries alike. In fact, we believe the practice of "mixed

credit" trade subsidies has become a major threat to international private enterprise. To protect U.S. firms and the free enterprise system, we recommend that the United States fight fire with fire. Specifically, we believe that the Administration should make sufficient mixed credit resources available in order to convince other nations that such practices are not in anyone's "best interest." This will press our foreign competitors to the negotiating table and bring an end to such predatory practices. In Part V of this report we recommend that the Agency for International Development (AID) and the Export-Import Bank (Eximbank) blend their resources and that, if necessary, Eximbank use the full extent of its authority. This could amount to a mixed credits program of several billion dollars.

☐ **Constructively use U.S. Agricultural Abundance.**

We cannot afford, financially or morally, to idle large parts of our productive farmland. Rather, we must devise ways to harness our agricultural abundance so that we can increase exports from the United States and alleviate chronic starvation and malnutrition in the developing world. Food can also be used to ease the pressing foreign exchange needs of Latin American, Asian, and African nations caught in the international debt crisis. The U.S. Government can provide large amounts of food to these countries on a concessional basis to enable them to use their limited foreign exchange to meet other objectives. The Public Law (P.L.) 480 Program is one of the President's most effective tools. We recommend doubling the program. Given the current costs of farm subsidy programs, the impact of this increase would be a net reduction in the Federal budget.

In designing a strategy to address current crises and long-term economic development needs, the Task Force has been guided by the following precepts.

☐ Market-oriented economies work, excessively planned economies do not.

☐ The United States has an important role to play in leading the world toward balanced and equitable economic growth.

☐ A free and open trading system offers the greatest hope of achieving widely shared economic growth and prosperity. However, U.S. industry and agriculture must be able to compete with the terms offered by mercantilist nations until such time as we can meet our competitors on a level playing field—in fair and open competition.

☐ United States agricultural abundance must be harnessed more effectively to address the human and development needs of the people of the Third World.

Specific Findings and Recommendations of the President's Task Force on International Private Enterprise

The following findings and recommendations are discussed in the report that follows. They are the result of substantial research and the subject of extensive deliberation by members of the Task Force over the past several months. If adopted, our recommendations will strengthen the economy of the United States and other developed and developing nations.

THE IMPORTANCE OF PRIVATE ENTERPRISE AND INVESTMENT TO DEVELOPMENT

Finding: Countries that fail to create conditions—including appropriate laws and policies—that will attract investment will relegate themselves to slow growth. At the present time, there is no central source of advice to help developing countries foster the conditions necessary for private sector growth.	**Recommendation:** The United States, working with other donor nations, developing countries, multilateral institutions, and private business, should establish a Private Enterprise Institute that will serve as a research center to advise developing countries on how to create those conditions necessary to attract investment and foster trade.
Finding: New foreign investment will be difficult to attract for many debt-ridden LDCs as long as insufficient foreign exchange is available to the private sector.	**Recommendation:** The United States should take the lead in assuring that private needs for credit and foreign exchange in LDCs are not pushed aside by preferred access of the public sector.
Finding: The United States and other donors do not make sufficient effort to increase private investment and improve the investment climate in developing countries.	**Recommendation:** The United States should strongly encourage international dialogue on ways to support increased foreign direct investment. **Recommendation:** The United States should substantially increase its support of private investment activities in developing countries.
Finding: In order to increase foreign investment, developed and developing countries need to adopt uniform standards for host country and investor responsibility and conduct.	**Recommendation:** The United States should encourage developing nations to negotiate bilateral investment treaties. The United States should assign priority in its aid programs to those countries that sign such treaties.

Finding: Expanded investment insurance (or guarantee) is a key to increasing investment in developing countries.	**Recommendation:** Overseas Private Investment Corporation (OPIC) funding and insurance capability should be substantially increased and its mandate broadened to include a full range of financing and services to U.S. business, large and small.
	Recommendation: The United States should support a multilateral investment guarantee program administered by the World Bank.
FOREIGN ASSISTANCE PROGRAMS AND PRIVATE ENTERPRISE DEVELOPMENT	
Finding: The U.S. Government does not sufficiently encourage or assist recipient developing countries in making the policy changes necessary to allow private sector growth.	**Recommendation:** The United States should sharply increase its efforts to guide developing countries toward market-oriented policies; it should reward those countries that adopt strategies that will lead to a positive climate for business and investment.
	Recommendation: U.S. food assistance should be used to a greater extent as an incentive for developing countries to adopt market-oriented policies that encourage the private sector to increase agricultural production.
Finding: U.S. foreign assistance programs are often required to address problems other than those related to long-term stability and economic growth.	**Recommendation:** The economic component of U.S. foreign assistance programs should have a higher national priority.
Finding: The links between our foreign assistance program and U.S. foreign trade are inadequate.	**Recommendation:** The scope and financing of the Trade and Development Program (TDP) should be expanded.
	Recommendation: TDP techniques should be applied to other foreign assistance programs, specifically those carried out by AID, to the maximum extent possible.

	Recommendation: U.S. foreign assistance resources should be used to build up the trading capacity of developing countries.
	Recommendation: U.S. foreign assistance resources should be used to assist in China's modernization process.
	Recommendation: U.S. foreign assistance agencies—such as AID, OPIC, and TDP—should package their financial and other resources to promote greater two-way trade between the United States and developing countries.
Finding: In implementing its agricultural development policies, AID has not given private agribusiness activities the attention and support they deserve.	**Recommendation:** Private sector efforts to form private sector agribusiness development corporations should be encouraged and supported.
	Recommendation: Developing country agricultural entrepreneurs should be supported by qualified U.S. executive-managerial and technical personnel "on loan" from the private sector to assure the ongoing progress of companies and individuals being financed with U.S. foreign assistance funds.
Finding: The international financing institutions play a constructive role in Third World development.	**Recommendation:** The United States Government should utilize its resources to support broad economic changes in developing countries and, where appropriate, coordinate its efforts with those of the International Monetary Fund, the World Bank, and the International Finance Corporation (IFC).
	Recommendation: The United States should continue to support the multilateral development banks' efforts to support private enterprise development.

Finding: The breadth and scope of AID's private enterprise activities are too limited. In order to expand them, AID needs a clearer mandate, improved skills, and greater flexibility.	**Recommendation:** AID's congressional mandate, its policies, its programs, and its organization must be revised to reflect greater private sector emphasis.
	Recommendation: AID should turn to the U.S. business community to assist it in developing practical modes of business-government cooperation.
	Recommendation: The U.S. Government, to the maximum extent feasible, should channel its foreign assistance resources through the private sector and not through governments: AID should substantially increase its support of private intermediate credit institutions (ICIs).
	Recommendation: AID should increase its equity financing through ICIs.
	Recommendation: AID should serve more as a broker between U.S. businesses and prospective overseas partners by providing inexpensive, current, and easy-to-use information on the investment climate and operating conditions in developing countries.
	Recommendation: AID should support the formation of trading companies and other business brokering institutions that have developmental potential.
	Recommendation: AID should encourage joint undertakings between businesses and private voluntary organizations in developing countries.
	Recommendation: AID should streamline its administrative and procurement processes.

Finding: Training, in various forms, is one of the most effective long-range means of promoting development. Fulfilling training needs offers the United States a significant opportunity.	**Recommendation:** The United States should significantly expand U.S.-based training and place stronger emphasis on private sector participation and needs.

THE FORMATION OF
U.S. ECONOMIC POLICY

Finding: In order to cope with new and changing circumstances, a new institutional structure is needed to ensure better formulation and coordination of U.S. international and domestic economic policy.	**Recommendation:** The President should establish an Economic Security Council (ESC) to formulate and coordinate domestic and international economic policy.
	Recommendation: The President should designate an Assistant to the President for Economic Affairs who would participate in the Economic Security Council.
Finding: Both legislatively and administratively, our foreign assistance programs suffer from confused mandates, divided responsibility, and often from a perception that economic development has a low priority.	**Recommendation:** There must be greater, more regularized consideration of developing country issues in the policy deliberation process.
	Recommendation: Changes must be made in AID's mandate and organization in order to improve the effectiveness of foreign assistance programs.
Finding: Responsibility for the U.S. Government's trade policies and programs is fragmented among several government agencies. Policies and programs do not operate within an overall strategy aimed at benefiting both the United States and developing countries, nor are they designed to address both U.S. trade objectives and broader U.S. economic objectives.	**Recommendation:** The U.S. Government must develop an aggressive, consistent trade policy that mixes aid and trade resources, enables U.S. firms to be more competitive in world markets, and meets the challenges posed by the growing governmental role in world competition.
	Recommendation: The United States must link its trade and foreign assistance programs.
	Recommendation: The United States should consider ways to give higher priority to the need for a freer and more open international trading system and continue to press for

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		a new round of multilateral trade negotiations. This new round should include adopting a trade in services code, the application of trade rules to middle-income developing countries, and strengthening enforcement procedures against government-subsidized trade.
		Recommendation: The authority of the United States Trade Representative (USTR) as trade policy negotiator and manager should be strengthened and expanded.
	Finding: The United States needs a more coordinated policy to integrate domestic agricultural programs, food assistance programs, and agricultural trade programs.	**Recommendation:** The United States must integrate its agricultural trade, food aid, and domestic farm policies.
		Recommendation: The Administration should seek to better relate U.S. response to LDC food and domestic security requirements.
	Finding: Some U.S. Government measures have discouraging or disadvantageous effects on American firms that are involved or might become involved in long-term relationships with private enterprise in developing countries.	**Recommendation:** The U.S. Government should coordinate more effectively its efforts to assure that U.S. laws and regulations reflect greater sensitivity to structural changes in the international marketplace.
	TRADE AND FOOD ASSISTANCE	
	TRADE	
	Finding: The United States has not adopted a strong enough stance in its negotiations to stop foreign governments from using unfair methods of subsidizing export finance.	**Recommendation:** The United States should use aggressively the mixed credits authority of the Export-Import Bank (Eximbank) to counter competitors' mixed credit offers.
		Recommendation: AID should also use its limited mixed credit authority, although the Export-Import Bank will be the major source of mixed credit financing.

Finding: The current debt crisis in the developing countries requires close cooperation between the U.S. private and public sectors to assure that adequate trade financing is made available.	**Recommendation:** U.S. Government foreign credit programs should operate under consistent guidelines.
	Recommendation: As part of an integrated trade policy, the participation of the U.S. private sector in countertrade should be facilitated when it is in the best interest of the United States.
FOOD ASSISTANCE	
Finding: Many developing countries face chronic food shortages that will undermine their political stability and economic development.	**Recommendation:** Food aid should be at least doubled to help avert starvation, alleviate poverty and malnutrition, expand developing country agricultural markets, and support private sector growth..
	Recommendation: A much larger share of total U.S. foreign assistance should be food assistance.
	Recommendation: Agricultural export credit programs should be significantly increased to help lessen the development impact of large food deficits and large debt burdens.
Finding: Present U.S. food assistance programs do not emphasize private enterprise development and U.S. private sector involvement in development assistance.	**Recommendation:** The U.S. Government should follow the instructions and intent of the law that most counterpart funds generated by P.L. 480 should be channeled through businesses and not through government.

Senator HEINZ. Thank you very much.
Mr. McGraw.

STATEMENT OF DONALD R. McGRAW, SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER, DMW KELLOGG CO.

Mr. MCGRAW. Mr. Chairman, I would request that you put my full statement into the record.

Senator HEINZ. Without objection, so ordered.

Mr. MCGRAW. Thank you very much for allowing me to appear before this committee and discuss some of the concerns that we have about the Eximbank and the international trading environment which makes the Bank and its programs necessary.

I wish to express the concerns of American industry with the OMB recommendation in fiscal year 1986 to eliminate or seriously reduce the Direct Credit Program.

I am Don McGraw, senior vice president of Kellogg Rust. We are a major company of Signal in the engineering construction business with more than half of our business performed overseas. Today, I am representing the Emergency Committee for American Trade [ECAT], an organization of about 63 large multinational firms that are vitally interested in expanding American exports of machinery, products, and diverse services. ECAT members have over 5 million workers around the world and have total annual sales of over $700 billion.

PROGRAM NOT WORKING

Our company has been a strong supporter of Eximbank. We applauded in 1983 when Congress passed legislation to strengthen the mandate for competitive financing and provided for a special matching Mixed Credit Program. Mr. Chairman, I have to report today that this is not working.

It is clear to us that AID and Eximbank are both lukewarm on this program. AID feels that the program is not consistent with their goals and Eximbank only looks at the cost side of the program.

Gentlemen, we are sending a signal to our competitors, don't worry about the U.S. contractor because at the end of the day Eximbank will not be there with the financial support. Eximbank's attitude is "what is the least we can get by with" while all of our competitors in these export agencies around the world that we deal with daily, they want to know "what is the maximum we can get away with." The whole mixed credit issue is a prime example of this.

Today, I'm afraid that we have to devote our energy to looking at the direct credit as a priority over the mixed credits. Although they are both important to us, I think that the direct credit would be a much more serious loss, the elimination of the medium- and long-term credit. In our estimation, if we do away with the Direct Credit Program, I think that we will slam the door on future exports of material, equipment, and services from the United States.

Today there are few foreign projects that we see coming through our business that is not driven by financing. The client looks at the terms and conditions of the financing, the competitive price for the

plant, the contractor with the technical skill to make the project happen. At this point, if our country is not competitive or it does not offer the right credits, we have to go overseas to the vendors overseas that have the best financing. Of course, this loses jobs. It loses balance of payment. And it also loses, probably the more damning thing, it loses the leading edge of technology which the contractors and the vendor enjoy today.

I think at this point in time the U.S. contractors have a position in the world market. Most clients want a big, multinational U.S. contractor to be the prime contractor on their job. This will only last so long. If in fact we do not have the financing available, the first time that our clients perceive the foreign contractor to have the same expertise and ability to perform large jobs overseas, the whole thing will shift overseas. We've got to keep the leading edge in technology in the United States.

We believe the proposal to eliminate the Eximbank direct credit is completely contrary to the long-standing competitiveness mandate provided by the Export-Import Bank Act which was strengthened just over 1 year ago in the passage of Public Law 98–181.

Again, as the rest of my colleagues on the panel, I, as an accountant, really don't understand the way that Eximbank keeps their books on the Federal budget expenditures. When we talk about subsidizing the interest rate or writing down the interest rate, I don't see the difference. It looks like we're playing with mirrors instead of getting our accounting in order.

I do not want to quote a lot of facts and figures. I think Mr. Draper has those figures and this committee has them. I would like to relate some projects that I've been personally involved in over the past few years as examples of what Eximbank can do and the lack of Eximbank involvement will prevent us from doing.

Senator HEINZ. Your time has expired. Please summarize the rest.

Mr. MCGRAW. The summary of the last is that Eximbank started out in the 1970's, late 1970's, and they were very competitive and we were able to get a lot of jobs, a lot of job exports, and a lot of exports from the vendors. Now it's not working. We're asked to be less competitive and we just want you to support the competitive nature of Eximbank.

Thank you.

[The complete prepared statement follows:]

Donald McGraw
Senior Vice President - Finance
Kellogg Rust Inc.

For The Emergency Committee For American Trade
(ECAT)

EXIMBANK'S DIRECT CREDITS PROGRAM

SUMMARY STATEMENT

Mr. Chairman, thank you for the opportunity to appear before this committee to comment on the current condition of both the Export-Import Bank of the U.S. and the international trading environment that makes the Bank and its programs necessary. Today I wish to state the concern of American industry with the Office of Management and Budget (OMB) recommendation in the Fiscal Year 1986 Budget to eliminate the Eximbank direct credits program.

I am Don McGraw, Senior Vice President of Finance for Kellogg Rust Inc. We are a major Signal company in the engineering and construction business with more than one-half of our business located outside the United States. Today, I am representing the Emergency Committee for American Trade (ECAT), an organization of the heads of 63 large U. S. multinational firms with a vital interest in expanding American exports of machinery, products, and diverse services. ECAT members employ over five million workers worldwide and have annual sales of about 700 billion dollars.

Our company, along with much of the U. S. industry, has been a strong supporter of Eximbank, and in 1983, applauded Congress for passing legislation strengthening the mandate for competitive financing and providing a special matching mixed credit program. I am sorry to report, however, this program is not working. It is clear to us that both AID and Exim are "lukewarm" about the program. AID feels the program is not consistent with their goals and Exim looks only at the cost side of the program. Gentlemen, the signal we are sending to our competitors is — don't worry about the United States contractors because at the end of the day they will not have Exim's financial support. Exim's attitude is "what is the least I can get by with" while other export agencies look for "what is the maximum I can get away with." The whole mixed credit issue is a prime example.

It now appears that the issue of direct credits must take priority over the mixed credit problems. If, as we understand, the FY86 Budget is looking at elimination

of the medium and long-term credit program, we have a much more serious problem than the mixed credits issue. In our opinion, this will close the door on future exports of material, equipment and services from the United States.

There are very few foreign projects that I have seen that did not require export financing. This is the driving force behind each invitation to bid that we receive. They look at the terms and conditions of the financing, the most competitive price for the plant, and a contractor with the technology and skill to make the project happen. At this point, most countries want to have a major U. S. international contractor as the prime contractor. If the financing is not available or not competitive in the U. S., then we have to source the material and equipment in the countries with the best financing. I don't have to tell you what this means to jobs, our balance of payments, and our leading edge in technology. It also means that we must rely on the foreign export credit agencies to pay for the U. S. content of our bid. This will only work so long. Once the foreign contractor is perceived by the client to have the expertise of the U. S. contractor, then the whole job will shift offshore. We must keep the leading edge in technology in the United States.

We believe the proposal to eliminate the Eximbank direct credit program is completely contrary to the long-standing "competitiveness mandate" provision of the Export-Import Bank Act which was strengthened a little over one year ago in the passage of PL98-181.

Eximbank's total credit authority simply cannot be treated in the same manner as other annual Federal Budget expenditures. Direct credits are shown as expenditures in the Federal Budget, but in reality are lines of credit which are repaid to Eximbank in U. S. dollars. The U. S. Treasury loans the funds to Eximbank and repayment is made from the collection of interest and principal by the Bank. In fact, the only impact of the direct credit program on the Federal Budget is the monetary differential between the cost of borrowing and lending. Unfortunately, the Administration appears to ignore this fact.

Instead of quoting lots of facts and figures which are covered in my report, I would like to recap several projects which had my personal involvement and one in which other ECAT companies are involved.

Back in the late 1970's, Kellogg arranged approximately one billion dollars of financing for an LNG project in Algeria. After some struggle, we were able to place over 300 million dollars of goods and services in the U. S. because competitive Eximbank direct credits were available. This put the leading edge of LNG technology with U. S. vendors and our company.

In 1980, we financed through Eximbank another 150 million dollars of highly sophisticated, labor intensive material and equipment and services for a fertilizer complex in Nigeria.

The next major project was an aromatics complex in Indonesia which had a value of over one billion U. S. dollars. All of the material, equipment and services were purchased in the United Kingdom, Japan, Belgium and Italy simply because the U. S. Eximbank was not willing to offer competitive financing.

Around the same time, we sourced a fertilizer complex totaling approximately 400 million dollars from the Japan Eximbank because the U. S. Eximbank could not step to the line on financing.

More recently, we lost a fertilizer complex in Thailand because the mixed credit program was not put into action although at least eight other industrialized countries in the world offered "mixed credits" through their respective export credit agencies.

Brazil is in the market for advanced health care technology, an area in which the U.S. holds technological leadership. France is willing to support the medical equipment exports of its manufacturers to Brazil. Unless the Eximbank provides competitive financing to U. S. firms seeking a foothold in the Brazilian market, the entire Brazilian market may be captured by France. The potential market is estimated to be 400 to 500 million dollars over the next three years.

I relate these examples as an illustration of where we are going as far as Eximbank is concerned and the resulting loss of jobs, the continuation in the deterioration of our balance of payments and the frightening prospect of losing our leading edge in technology. We should be pushing to strengthen the Eximbank programs, not weaken them.

We urge this committee to continue the support of the Eximbank competitiveness mandate by maintaining the direct credit authority of the Bank in FY86 and future years. Only if the U. S. Eximbank is in a position -- as a matter of last resort -- to match the export credit offers of our trading partners is there any hope of bringing predatory export financing under control.

Senator HEINZ. Mr. McGraw, thank you very much.
Mr. Thornton.

STATEMENT OF DEAN THORNTON, SENIOR VICE PRESIDENT, THE BOEING CO.

Mr. THORNTON. My name is Dean Thornton. I'm a senior vice president with the Boeing Co. in Seattle, WA. I'm going to try to underrun your 10 minutes, Mr. Chairman. You have my prepared statement and I will just try to summarize some of the highlights.

Boeing, as you probably know, is a very large exporter, usually No. 1. We are a big user of the Eximbank, often No. 1.

Today, I'm speaking not only for Boeing but for what we call our invisible exporters, the some 3,500 suppliers and subcontractors who make parts that go into our airplanes located in virtually all 50 of the States.

MAJOR PART OF BUSINESS IS OVERSEAS

International business is critical to us. About 60 percent of our prospective market will be outside the United States. We need that export market to recover the kinds of risk investments that we make at the front end of one of these new airplane programs, perhaps $1 billion.

We have talked about the two frightening deficits, the trade deficit and the budget deficit, and it just seems to me that it maybe doesn't make a lot of sense to hurt one of them significantly while you're not helping the other one in a meaningful way.

I want to address the subsidy issue. First of all, the subsidies, if there are any, because of the rate differential, do not come to the Boeing Co. They go to the customers of the Boeing Co. We are not asking for a subsidy. We have traditionally and historically supported the negotiations to eliminate subsidized trade financing and will continue to do so. They have made progress in those negotiations over the past few years but they're not there yet.

We think that a unilateral elimination of direct credits by the Eximbank would hurt the position of our negotiators and I think it's critical to be strong today.

I want to tell you about one way the Eximbank can help us and I will illustrate an actual transaction. About 2 years ago we were in a head-to-head competition with the Europeans at Japan Airlines, the 767 against the A-300. Japan Airlines is a very good customer and this was an intense competition that went on for maybe 3 months. We had the better airplane, which Japan Airlines admitted. It was more economical, better in range. The Europeans slashed the price. They came in with a financing offer. We got a preliminary commitment from the Eximbank so the field was level there. We won the deal. Japan Airlines never used the Eximbank financing, but Eximbank contributed really a big piece to that sale and never spent a penny. Just the fact that they were there was significant.

This new proposal to buy down or whatever we call it, a direct subsidy to the commercial banks, I feel would be a step in the wrong direction. I think it's a change in direction when we need to show strength. I think the direct appropriation with no possibility

or recoupment in a real economic sense probably has more to do with the budget than the current situation and I think what they're proposing is probably too small.

We urge this committee and this body to seriously consider keeping the Eximbank credit on the books.

Your staff has allowed me to bring one of our suppliers, Mr. Larry Goldberg, from Long Island, NY.

[The complete prepared statement follows:]

PREPARED STATEMENT OF

DEAN THORNTON, SENIOR VICE PRESIDENT, THE BOEING COMPANY

The Boeing Company welcomes the opportunity to participate in the Senate Banking Committee's oversight hearing on activities of the Export-Import Bank.

Federal budget deficits have quite understandably - and quite properly - become the focus of attention in the Congress. There is general agreement in virtually all sectors of American society that budget deficits must be reduced and a broad consensus that the prime target should be to bring Federal spending under control. Deciding what programs to cut will, of course, involve difficult choices but we are confident our political process will ensure careful consideration of the national interest and a fair hearing for those affected by necessary cutbacks.

There is, unfortunately, no comparable focus on another alarming deficit the nation faces: our trade deficit.

The charts at the end of this submission graphically show the deterioration of the United States trade position. The phenomenon is not confined to so-called "smokestack industries". America's traditional positive trade balance in capital goods is eroding rapidly. The same is true of some of this country's industries at the upper end of the technological spectrum.

The aerospace industry still makes a substantial positive contribution to the U.S. trade balance. For civil aircraft, the trade balance is also positive, due primarily to the favorable balance for large transports. The latest available statistics, however, reveal some disquieting trends: for the first three quarters of 1984, total imports of civil aerospace products increased 28.4% over the same period of 1983 while exports declined by 14.2%.

The U.S. trade deficit is growing faster than budget deficits - up nearly 100% in 1984 over 1983 - and has reached what can only be regarded as appalling levels. Surely no one would have imagined only a few years ago that this country would run a trade deficit of over $120 billion in a single year. Analysts generally agree our deteriorating trade position can be attributed to a number of complex factors including the extraordinary strength of the dollar, faster economic growth in this country than in other industrialized countries, and developing countries' debt problems. None of these are susceptible of quick or simple solutions. That is why most forecasters expect no improvement in the U.S. trade deficit in 1985 and perhaps even some worsening.

Continuing massive trade deficits are as unsustainable as continuing massive budget deficits. The U.S. trade crisis--for that's what it is--is every bit as serious as the budget crisis. Both need fixing.

One way Congress can help is by supporting adequate funding for the Export-Import Bank. The continued availability of Eximbank direct credits is especially important for a number of reasons:

- o They enable the United States to neutralize foreign government-subsidized export credits which, unless neutralized, will mean large losses to our foreign competitors.

- o They provide essential leverage to persuade Europe to negotiate improvements in international rules on export credits.

- o They support U.S. exports in compliance with Congressional policy mandate.

- o Without Eximbank support, U.S. export losses will have adverse effects on domestic production, employment, and tax revenue.

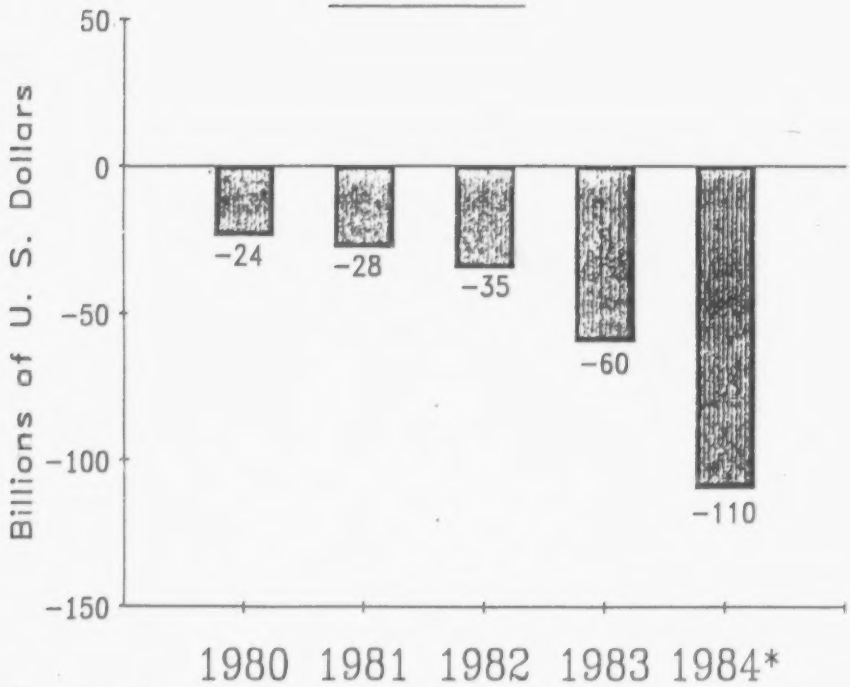
- o These adverse effects will not be confined to a handful of major exporters like Boeing but will be widely dispersed throughout the country. Boeing, for example, has over 3,000 suppliers producing equipment for our jetliners.

Boeing is particularly concerned about budgetary actions affecting Eximbank. We are not a bank. We do not have resources to match the national Treasuries of France, Germany and the United Kingdom. U.S. private banks offer market rates, almost always floating rates these days, and it is not their job to offer below-market rates so that U.S. financing matches European government-subsidized rates. That's Eximbank's job.

U.S. Treasury and Eximbank negotiators have been making considerable progress in negotiating improvements in OECD agreements on export credits, particularly the Arrangement on Guidelines for Officially-Supported Export Credits. Commercial aircraft, however, (like a few other special categories), are covered by separate agreements--the so-called "Common Line" and "Standstill". Both of these agreements are out of date and need to be spelled out in more precise terms. This process has been underway for some time and needs to be accelerated. Fortunately, thanks to recent drops in interest rates, the degree of official export credit subsidies has also declined sharply but there is no assurance this situation will continue. If interest rates rise, so will European subsidized export credits unless an intergovernmental agreement can be reached to stop it. This is why uncertainty about the continuation of support for Eximbank direct credits is so unfortunate. It raises doubts about U.S. willingness to stay in the race. It encourages Europe to stall, waiting to see if this country is really prepared to let them take over our foreign markets.

We don't think Congress will let them do so. A good way to send a clear message to that effect is to continue funding Eximbank in FY'86 at this year's level.

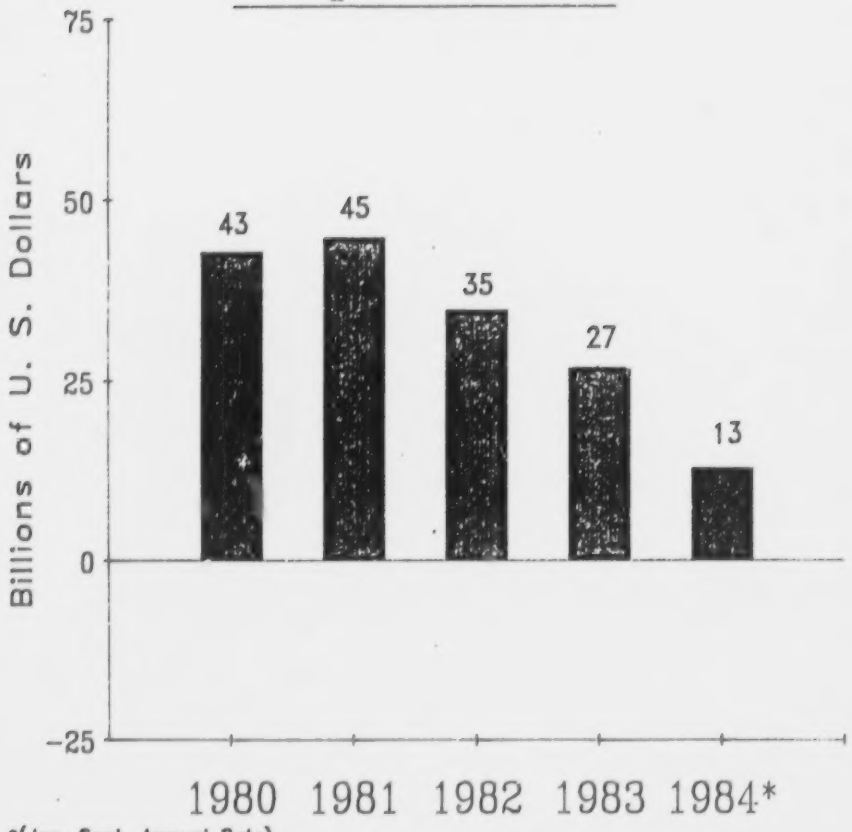
U. S. Merchandise Trade Balance



*(Jan–Sept, Annual Rate)

Source: U. S. Dept. of Commerce, Bureau of Economic Analysis

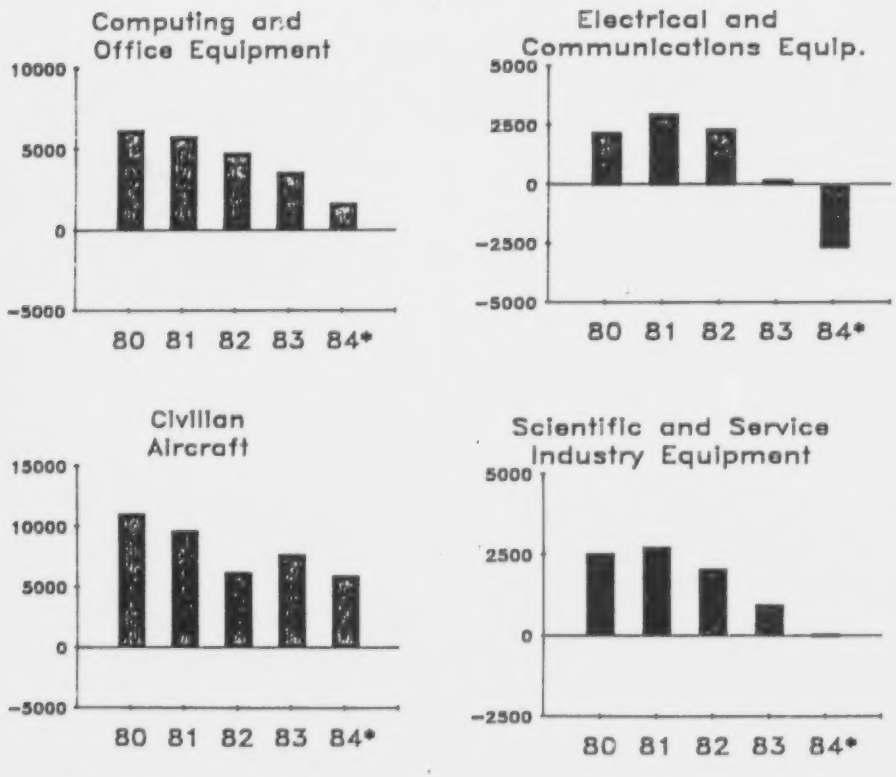
U. S. Trade Balance
-Capital Goods



*(Jan-Sept, Annual Rate)
Source: U. S. Dept. of Commerce, Bureau of Economic Analysis

U. S. Trade Balance of Select Capital Goods

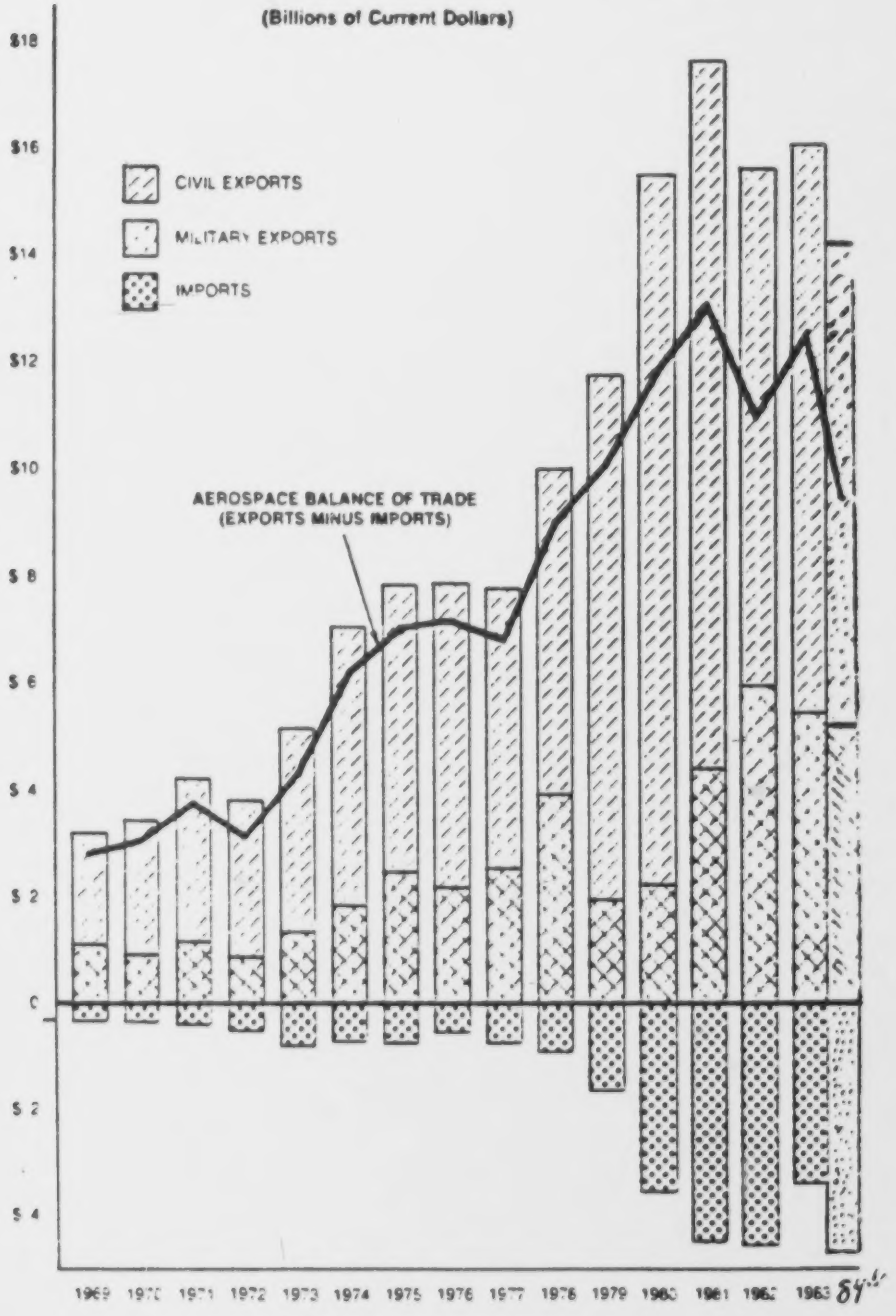
(Millions of U. S. Dollars)



*(Jan-Jun, Annual Rate)

Source: U. S. Dept. of Commerce, Bureau of Census

AEROSPACE EXPORTS, IMPORTS, AND TRADE BALANCE



Source: Aerospace Industries Association

1/ FIRST 9 MONTHS AT ANNUAL RATE

STATEMENT OF LAWRENCE GOLDBERG, VICE PRESIDENT AND TREASURER, MONITOR-AEROSPACE CORP., FARMINGDALE, LONG ISLAND, NY

Mr. GOLDBERG. Thank you very much. I wish to say I agree with most of what's been said by the other industry representatives and will not cover the same ground. Rather, I'd like to discuss the effects of a reduction in commercial aircraft sales on the small business subcontractor.

Our company is located in Long Island, NY, and employs about 400 people. When I speak of jobs, I speak of jobs in the dozens. When I speak of thousands of companies cutting jobs in the dozens, there are hundreds.

We, ourselves, disburse over $15 million to suppliers and subcontractors in 20 States. The overwhelming majority of these suppliers are also small businesses. Many of them are startup operations. Many of them are minority enterprises.

EFFECTS OF LOST TRADE

During the last difficult period for commercial aviation sales, not caused by Eximbank or import-export problems, our own employment dropped from 459 people to 350 people. Our military work remained virtually the same while our commercial work dropped by almost 50 percent. The effect was layoffs, the second general layoff in our company's 36-year history. We do not take layoffs lightly and we lost an awful lot of money before we took this drastic step.

In an industry that is typified by higher than average pay scales, we had many of our former employees seek aid from the Government, seek aid in the form of so-called entitlements. Most aerospace workers don't want this type of aid from their Government, but since they are in skilled and semiskilled crafts related largely only to the manufacture of aircraft parts, the budgetary effect was on unemployment compensation benefits, welfare benefits, food stamps, and so forth. We went from a taxpayer at almost full corporate rates to first getting significant refunds in the context of a company our size in the high six figures, and now having carryforward losses, and as we rebuild profitability we won't be paying income taxes in a completely legitimate fashion in the next couple of years.

In conclusion, I'd like to state as a small business subcontractor, we don't have the wherewithal to become completely familiar with the economic realities of international trade, but as an American businessman, give us the opportunity to play fair. Give everyone the same weapons and I really think we will beat the heck out of the foreign competition.

Thank you very much.

Senator HEINZ. Mr. Goldberg, Mr. Thornton, thank you very much. Mr. Moore.

STATEMENT OF WAYNE R. MOORE, PRESIDENT AND CHIEF EXECUTIVE OFFICER, MOORE SPECIAL TOOL CO., INC., REPRESENTING THE NATIONAL MACHINE TOOL BUILDERS ASSOCIATION

Mr. MOORE. Good morning, my name is Wayne Moore. I am president and chief executive officer of Moore Special Tool Co., Inc., located in Bridgeport, CT. In addition to serving as a member of the Advisory Committee of the Export-Import Bank of the United States, I am also first vice chairman of the National Machine Tool Builders' Association [NMTBA], on whose behalf I am appearing today. With me this morning is James H. Mack, NMTBA public affairs director.

Mr. Chairman, we appreciate this opportunity to review the effectiveness of Eximbank programs as they relate to the machine tool industry.

COMPETITIVE PRESSURES UNPRECEDENTED

As our written submission documents, the U.S. machine tool industry is confronting unprecedented competitive pressures. Because Eximbank's Direct Credit Program enhances the ability of the machine tool industry and its customers to successfully overcome these pressures. NMTBA strongly opposes the administration's recent proposal to eliminate entirely the Bank's direct lending authority.

First, as you have recognized, Mr. Chairman, the Bank's Direct Loan Program—by making competitive credit terms available to American exporters—is the principal method by which our competitors' predatory financing arrangements may be offset.

Second, NMTBA believes that the continued availability of competitive export financing will play an important role in preventing further shifting of U.S. productive capacity to foreign sources. Clearly, this trend toward offshore sourcing—which imparts ominous implications for America's national defense requirements and future economic stability—is one that we can ill afford.

Third, the proposed elimination of the Direct Credit Program is manifestly inconsistent with Congress' 1983 amendments to the Export-Import Bank Act strengthening the Bank's mandate to meet foreign competition in export financing.

Finally, Mr. Chairman, we would like to endorse your recent observation that Eximbank direct loans are an important element in deficit reduction through job creation.

Should Congress ultimately determine that a freeze or reduction in Eximbank's overall funding authorization is necessary, we urge that any adjustments be made cautiously and across the board with regard to all of the Bank's programs. Budgetary objectives could thus be achieved even handedly—that is, without the elimination of direct credits.

The use of mixed credits is one predatory financing practice which, in many instances, permits our foreign competition to offer more favorable financing terms. Although Congress, in late 1983, authorized Eximbank and the Agency for International Development [AID] to offer mixed credits to counter those provided by competitor nations, the AID continues to exhibit open hostility to the

defensive use of mixed credits. And while Eximbank recently has stepped up efforts to match foreign mixed credit offers, to date the Bank's overall level of response can, we think, fairly be characterized as reluctant.

Perhaps the committee should consider the creation of a special mixed credit fund. Such a fund could be administered by Eximbank and used to supplement the Bank's lending capacity when it is determined that the defensive use of mixed credits is essential. In addition, Eximbank and AID must work together in a spirit of cooperation to ensure a meaningful solution to the mixed credit problem.

EXIMBANK'S SMALL BUSINESS PROGRAMS

Let me conclude with a word about Eximbank's small business programs. During the past year, the Bank has undertaken an admirable effort to become more responsive to the needs and concerns of small business exporters. While we commend the Bank's initiatives in this regard, we firmly believe that none of the Bank's existing small business programs adequately address the difficulties confronted by exporters seeking to finance transactions which involve amounts less than $250,000.

The problem is that local U.S. banks—even those participating in Eximbank programs—generally are reluctant to process loans for amounts below $250,000. As a result, the small U.S. exporter, who almost always solicits overseas sales through a distributor, is saddled with a substantial disadvantage in the international marketplace because once the distributor locates a potential overseas customer, he is frequently unable to offer that customer favorable terms.

NMTBA recently initiated discussions with Eximbank officials to consider the feasibility of establishing a pilot program to address these deficiencies. We will keep the committee apprised of the proposal's progress.

Thank you. We would be happy to respond to your questions.

[The complete prepared statement follows:]

STATEMENT BY
WAYNE R. MOORE
PRESIDENT
MOORE SPECIAL TOOL CO., INC.
REPRESENTING THE
NATIONAL MACHINE TOOL BUILDERS' ASSOCIATION
BEFORE THE
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE
FEBRUARY 5, 1985

I. INTRODUCTION - INDUSTRY OVERVIEW: THE U.S. MACHINE TOOL INDUSTRY IS FACING AN INCREASINGLY HOSTILE INTERNATIONAL TRADING ENVIRONMENT

Good morning, my name is Wayne Moore. I am President and Chief Executive Officer of Moore Special Tool Co., Inc., located in Bridgeport, Connecticut. The company is privately owned and manufactures the tools of metalworking precision: jig grinders, jig borers, angle dividing equipment and universal measuring machines used by Bureaus of Standards throughout the world. We currently employ 470 persons.

In addition to serving as a member of the Advisory Committee of the Export-Import Bank of the United States, I am also 1st Vice Chairman of the National Machine Tool Builders' Association, on whose behalf I am appearing today. NMTBA is a trade association representing more than 300 companies which account for approximately 85 percent of domestic machine tool production. With me this morning is James H. Mack, NMTBA Public Affairs Director.

Mr. Chairman, we appreciate this opportunity to review the effectiveness of Eximbank programs as they relate to the machine tool industry. In order that our comments may be viewed in the context of the very difficult international trading environment

currently facing the industry, we thought it would be helpful to begin our remarks with the following brief update.

Throughout 1983, while the economy as a whole experienced robust growth, the machine tool industry failed to share in the cyclical expansion. In fact, when measured in terms of shipments, 1983 was a disastrous year. Deliveries of new machine tools totaled just $1.8 billion, slightly more than half the level of the previous year and only about one-third the 1981 total. Although orders were up, the increase was a meager 13 percent over the extremely low level of 1982.

However, the machine tool market appeared to be gaining momentum during 1984. New orders for 1984 were 72 percent ahead of comparable 1983 figures. Shipments, reflecting the relatively slow pace of 1983 orders, were up 23 percent over 1983 levels. Certainly the fact that the industry has begun to turn around is a hopeful sign, as are recent surveys indicating that manufacturers plan to continue the boost in their capital spending during 1985.[1]

Certainly this is encouraging news. It must be recognized, however, that to date, a major portion of the increase in 1983 and 1984 orders is due to the surge in automobile

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[1]However, the U. S. Department of Treasury's recent proposal to eliminate accelerated capital cost recovery and the investment tax credit would, if enacted, have a disastrous impact on the rate of capital investments.

manufacturing and related industries. The machine tool industry's auto-related orders, while welcomed, are limited primarily to four product lines: transfer machines, large presses, certain grinding machines and gear-making machinery.

Thus, while the above-mentioned signs are positive, they by no means signal a full-fledged return to prosperity for the entire industry. Most machine tool builders continue to remain in a state of severe financial strain due to the modest recovery in shipments. Getting through this cash-flow crisis is the industry's immediate concern. And though we are headed in the right direction, 1985 appears to be another tough year for U. S. machine tool builders.

As you are aware, Mr. Chairman, a major factor complicating the prospects for recovery is the spectre of <u>further</u> import inroads into the American machine tool market. Based on current trends, we estimate that imports, measured by value, will account for a staggering 38 percent of 1984 domestic machine tool consumption. Unfortunately, imports have shown every sign of maintaining or increasing this market share as the recovery unfolds in 1985.

It is because of the threat of import dominance in the machine tool market, the industrial backbone of American manufacturing and America's defense industries, that early in 1983 the NMTBA filed a petition for temporary import relief with the Secretary of Commerce under Section 232 of the Trade Act of 1962, the National Security Clause. While the Association has long been a

proponent of free trade and has one of the most active international trade promotion efforts in the trade association field, we cannot stand idly by while key segments of the American machine tool industry are decimated by targeted sales of foreign machine tools -- and, more importantly, while the national security of the United States is imperiled by the transfer of machine tool productive capacity to the Far East.

The Commerce Department submitted a reportedly favorable recommendation for action on the petition to the President on February 28, 1984. Thus, for the past year, the fate of the industry's future has rested squarely in the Oval Office. We received overwhelming bipartisan support from Congress for a favorable ruling. In that regard, Mr. Chairman, let me take this opportunity to express the industry's deep appreciation for your persistent efforts on its behalf. Yet, despite this gratifying response to the industry's plight, the Petition remains hung up in the National Security Council and the President still has not acted.

With almost two years having passed since the initial filing, most NMTBA members, aware that a timely resolution is not forthcoming, have, out of necessity, moved ahead with investment decisions that could no longer be postponed. Some manufacturers completely withdrew from the machine tool business; some entered into marketing agreements with their foreign counterparts and are now distributing foreign-made machines; others are transferring what is left of their operations offshore. The end result is, of course,

an unmistakable erosion of the very core of this nation's productive capacity.

These developments have, understandably, taken a toll in terms of the industry's export outlook. Though the vigorous expansion of export markets continues to be a top priority for the U.S. machine tool industry, the unfortunate reality is that steady import penetration, the recent worldwide recession, unrealistic export control policies and, perhaps most importantly, the overvalued dollar have severely hampered the industry's ability to export on a competitive basis. The result is a shocking deterioration in export performance. Consider that in 1981, exports by U. S. machine tool makers were just over $1 billion; 1984 estimates indicate that exports will be approximately $400 million -- a decline of 60 percent in just three years. Clearly, the U.S. machine tool industry is confronting unprecedented competitive pressures.

II. THE IMPORTANCE OF EXIMBANK'S DIRECT LENDING AUTHORITY

The industry's present competitive posture indicates that international trade is our greatest growth opportunity as well as our greatest challenge. Because Eximbank's direct credit program enhances the ability of the machine tool industry and its customers to meet these challenges successfully, NMTBA strongly opposes the Administration's recent proposal to eliminate entirely the Bank's direct lending authority. For reasons discussed below, we firmly believe that, in light of America's burgeoning trade deficit -- and

the permanent loss of American jobs that it represents -- such action would be ill-considered and, indeed, irresponsible.

First, Mr. Chairman, we share your view that a strong Eximbank direct loan program represents an invaluable resource to American exporters who are forced to confront the often unpleasant realities of international competition. We are, of course, referring to the predatory trade practices of certain of our foreign competitors who, backed by government-subsidized financing, seek to supplant their American counterparts in international markets. As you have recognized, Mr. Chairman, the Bank's direct loan program -- by making competitive credit terms available to American exporters -- is the principal method by which these predatory financing arrangements may be offset. It is, therefore, beyond question that the elimination of Eximbank direct credits would only result in the further erosion of U.S. presence in overseas markets.

Second, NMTBA believes that the continued availability of competitive export financing will play an important role in preventing further shifting of U.S. productive capacity to foreign sources. As we noted earlier, the disturbing trend toward offshore sourcing is unmistakably evident in the machine tool and other basic manufacturing industries. Clearly, this development -- which imparts ominous implications for America's national defense requirements and future economic stability -- is one that we can ill afford. And while we realize that a number of factors -- especially lower labor and production costs -- contribute to the decision of U.S. manufacturers to shift their operations to foreign licensees,

subsidiaries and subcontractors, export competitiveness and the availability of foreign government export credit assistance undoubtedly enter into this decision-making process. Eximbank's direct credit program thus serves as an important signal to American manufacturers that the U.S. government is committed to improving their competitive position in world markets.

Third, the proposed elimination of the direct credit program is manifestly inconsistent with Congress' 1983 amendments to the Export-Import Bank Act -- actively supported by NMTBA -- strengthening the Bank's mandate to meet foreign competition in export financing. It must be emphasized that the hostile international trading environment which gave rise to those changes has only become more difficult for U.S. exporters. We therefore urge this Committee to re-affirm its recognition that an aggressive direct credit program is vital to a strong U.S. export performance.

Finally, Mr. Chairman, we would like to endorse your recent observation that Eximbank direct loans are an important element in deficit reduction. It is estimated that each $1 billion of Eximbank direct loan activity results in a net budgetary gain of approximately $731.5 million to the U.S. Treasury. Thus outright elimination of the Bank's direct loan authority would actually increase the federal deficit. And even though the Bank has incurred operating losses in recent years -- due in large part to sharp increases in the cost of borrowing funds -- the Bank's reserves have more than adequately covered these losses. In addition, the Bank's undeniable role in the creation of American jobs must not be

overlooked as a significant -- albeit indirect -- form of revenue enhancement.

It was just a few short months ago that the Eximbank Advisory Committee, of which I am a member, unanimously passed a resolution urging the President and the Congress to give the Bank the full support and funding necessary to foster the U.S. export effort in the face of growing subsidized foreign competition. NMTBA wholeheartedly concurs with the spirit of this resolution. We are, however, mindful of the severe budgetary pressures currently facing the Congress. Therefore, should Congress ultimately determine that a freeze or reduction in Eximbank's overall funding authorization is necessary, we urge that any adjustments be made cautiously and across-the-board with regard to all of the Bank's programs. Budgetary objectives could thus be achieved "even-handedly" -- that is, without the elimination of direct credits. This approach, by helping to ensure the Bank's future stability as a viable source of export financing assistance, recognizes that there simply is no substitute -- including so-called "buy down" proposals -- for a healthy direct credit program.

III. THE USE OF MIXED CREDITS

U.S. exporters competing for overseas business increasingly encounter the use of tied-aid or "mixed" credit financing arrangements by their foreign competitors. These arrangements consist of a combination of conventional export financing -- public or private -- together with foreign-aid

"humanitarian" type financing. The availability of mixed credits in many instances permits our foreign competition to offer more favorable financing terms, thereby resulting in lost U.S. export opportunities. Unfortunately negotiations to restrict the use of mixed credits through the International Arrangement on Guidelines for Officially Supported Export Credits have not been successful thus far.

In late 1983, Congress authorized Eximbank and/or the Agency for International Development (AID) to offer mixed credits to match those provided by competitor nations. Congress, although recognizing that such financing practices contribute to the distortion of trade and aid flows, was attempting -- commendably so -- to deal with the harsh realities of the international marketplace. In this regard, the authorization was essentially defensive in nature. However, the AID continues to exhibit open hostility to the "defensive" use of mixed credits. And although Eximbank recently has stepped-up efforts to counter foreign mixed credit offers,[2] to date the Bank's overall level of response can, we think, fairly be characterized as reluctant.

NMTBA understands that one source of the Bank's reluctance is its concern that the frequent use of mixed credits will result in a substantial depletion of the Bank's reserves. In this regard, perhaps the Committee should consider the creation of a

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[2]One such effort involved an NMTBA member company. The Bank's favorable financing terms permitted Cincinnati Milacron to beat out French competitors for a $15 million sale of sophisticated machine tools to Indonesia. NMTBA applauds the Bank's initiative in helping the company capture this important opportunity.

special mixed credit fund. Such a fund could be administered by Eximbank and used to supplement the Bank's lending capacity when it is determined that the "defensive" use of mixed credits is essential. Meanwhile, International Arrangement negotiations should continue.

In addition, in order to ensure that U.S. exporters receive the benefits intended by Congress' 1983 authorization of mixed credit offers, Eximbank and AID must work together in a spirit of co-operation. The continued lack of a cohesive interagency commitment will defeat any chance for a meaningful solution to the mixed credit problem.

IV. EXIMBANK'S SMALL BUSINESS PROGRAMS

During the past year, the Bank has undertaken an admirable effort to become more responsive to the needs and concerns of small business exporters. In this regard, the Bank is currently mounting an aggressive marketing campaign geared toward reaching out to both smaller, less-experienced exporters who may be entirely unaware of ongoing Eximbank programs which are tailored expressly for the small business export community and to small businesses which exhibit untapped export potential. This development is especially gratifying to NMTBA, since small businesses represent the vast majority of machine tool establishments.

The Bank's initiatives include the Working Capital Guarantee program, helping small companies to obtain critical pre-export financing from commercial sources; the Small Business Credit program, enabling small businesses to arrange commercial bank export loans for their medium-term sales with interest rates fixed at

the lowest levels permitted under internationally adopted guidelines of the Organization for Economic Co-operation and Development; the FCIA "New to Export" program, providing a useful entry mechanism into export credit sales; and the new Exim/FCIA "umbrella" insurance policy, available to small and medium-sized banks, export trading companies, trade associations, state export financing agencies and small business investment companies. The policy extends the "umbrella" of short-term insurance coverage to credit sales made by new and inexperienced exporters.

In addition, the Bank, in conjunction with the Department of Commerce, recently launched a pilot program in four Midwestern states that, if successful, would increase the number of Exim program outlets and permit state export financing agencies to buy insurance policies to cover the shipments of small-scale exporters.

NMTBA commends these efforts and is encouraged by Eximbank's response to its Congressional mandate requiring the Bank to be fully competitive in all of its programs. However, we firmly believe that none of the Bank's existing small business programs adequately addresses the problems confronted by exporters seeking to finance transactions which involve amounts less than $250,000.

The small business exporter frequently deals with sales involving amounts well under $250,000 -- unit sales typically range from $5,000 to $150,000. However, local U.S. banks -- even those participating in Exim programs -- generally are reluctant to process loans for amounts below $250,000.

As a result, the small U.S. exporter, who almost always solicits overseas sales through a distributor, is saddled with a substantial disadvantage in the international marketplace. Once the distributor locates a potential overseas customer, he is frequently unable to offer that customer favorable terms. The distributor for the U.S. supplier is forced to require a cash transaction in the form of an irrevocable letter of credit, payable at time of shipment. The customer often is, understandably, unable (or unwilling) to meet these terms and must therefore turn to suppliers from other countries who offer more flexible financing packages. Distributors, who also represent the industry's foreign competitors, stand in a ready capacity to assist these customers. The American exporter's loss thus becomes his competitor's gain.

My own company's experience as a small business exporter has confirmed that, in order to remain a viable force in world markets, American manufacturers competing for overseas business must be in a position to offer methods of favorable financing. The availability of such methods will encourage distributors to pursue and promote the sale of American products, thereby enhancing the position of American exporters within the foreign distribution network -- a network which is crucial to small business export sales.

In order to assist the Bank in addressing this deficiency, NMTBA recently initiated discussions with Exim officials to consider the feasibility of establishing a pilot program under which credit-worthy machine tool builders would agree to process their sales through a single bank selected by the industry and approved by

Exim. This concept, by ensuring a sufficient volume of business, makes it financially worthwhile for a bank to undertake smaller transactions. In addition, specific markets approved for Exim credits would be targeted by the builders with the option to expand if the pilot program proves feasible. NMTBA would, of course, assist in the development and implementation of the pilot program.

Although our discussions are in the early stages, we are encouraged by Exim's favorable response. We will be happy to keep the Committee apprised of the proposal's progress.

V. CONCLUSION

The reasons for the U.S. machine tool industry's decline in export performance -- and the decline in U.S. export performance generally -- are varied and complex. Thus it is not our intention to suggest that Eximbank programs be viewed as a "cure all" for the industry's competitive ills. However, NMTBA salutes the Bank as a commendable effort by the U.S. government to enhance the competitive posture of American industries. As the Committee is aware, many of these industries, including machine tools, are literally at the crossroads. A strong Eximbank will influence -- in some cases, significantly -- the directions we choose. Because these directions will determine our competitive outlook for years to come, we urge the Committee to continue its support for a vigorous Eximbank.

Thank you. We would be happy to respond to your questions.

Senator HEINZ. Thank you very much, Mr. Moore.

Gentlemen, you have really covered the waterfront in your testimony and I'm sure Senators Gorton, Proxmire, and myself have many questions. I am going to limit my questions and ask that some of them be responded to in writing.

STRATEGY OF TARGETING

Let me ask Mr. Andreas. Our major trade competitors seem to have targeted specific industries in which they had hoped to achieve market dominance. How does Eximbank financing act as a defense against those kind of targeting strategies?

Mr. ANDREAS. You're referring to industries that export to the United States?

Senator HEINZ. To the United States or Third World markets where the United States is also trying to compete. Let's take an example of machine tools. Japan targeted, it was alleged in the Hudai petition, their machine tool industry. It not only hurt us here but it hurt the export of machine tools elsewhere.

Mr. ANDREAS. Well, no two cases are alike. I'm sure that if they had really targeted the machine tool business there wouldn't be any other defense except some kind of an import fee or protective tariff.

Senator HEINZ. So you're saying the alternative to an Eximbank is protectionism?

Mr. ANDREAS. Yes, that is correct. And if you have a good aggressive export policy in the long run we can avoid protectionism. We can export a lot of goods.

Senator HEINZ. Let me ask you about the so-called buydown arrangement, the interest rate buydown arrangement that the administration is apparently serious about proposing.

What do you suppose would happen for a large expensive project in a country like Thailand if a request like that comes in late in the fiscal year?

Mr. ANDREAS. You mean what would the Thailand——

Senator HEINZ. Let me ask Mr. McGraw this question. It's probably better for him.

Mr. MCGRAW. I'm not sure, Senator, that I understand all the workings of what is the buydown, but I really don't see where it's helping us. I think that a client looking at it from the other side would wonder where the Eximbank program is going and, again, will the Eximbank be there at the end of the day and will this whole program be supportive and competitive with those of the Japanese and the Europeans.

Senator HEINZ. Well, regarding the buydown program, as I understand it, it in part succeeds or fails based on whether or not U.S. banks will be willing to extend credit beyond 6 years, which is typically what they do. Also, as a matter of record fact, the Eximbank's medium-term financing averages between 8 and 10 years—direct credit averages between 8 and 10 years.

I guess my question about the interest rate buydown—anybody who wants to jump into this should feel free to do—is, what makes anyone think that American financial institutions are going to change their habits on fixed-rate financing and run out beyond 6

years to 8, 10 or when necessary derogate on term to 15, 20, or 25 years, as we have on occasion had to in order to show our trading competitors that we are serious when they break the arrangement or when they engage in mixed credit deals which we all find abhorrent? Does anybody want to tackle that question?

SENDING WRONG SIGNAL OUT

Mr. MOORE. Senator, I think the critical point here is that elimination of the direct credit program not only represents a watering down of the export posture of the United States, but it's a very symbolic move by our country—and by the Eximbank—which is sending a signal to others that we are going to be less competitive. I really believe the very fact that we are here discussing and debating the elimination of such a strong program is, in itself, a weakening posture of the Eximbank, since what is needed in export trade is continuity, security, and ready access to Eximbank's facilities. In essence, this discussion is saying to users, "We're not sure tomorrow if the rules are going to be changed."

Senator HEINZ. It's often argued starting from the point that West Germany is a successful exporter that West Germany does not have a direct lending program for its exports, but rather relies on loan guarantees through its Hermis agencies, that therefore, since they are successful and they don't have a direct credit program like Eximbank, that we should pattern our official Export Credits Program on the West German model.

That's an argument we would have heard, I think, if the first group of witnesses, particularly Mr. Draper, had been around longer.

What do you say to that line of argument? Does anybody want to answer that one?

Mr. THORNTON. I think two things disturb us—and we don't understand the way the mechanics of this system would work with the banks and so on—but the amount of the subsidy is going to vary obviously with the interest rate levels and these rates are fixed because you're in that kind of a ball game. So apprehension about the uncertainty of downstream interest rates, plus the normal banking tendency that you mentioned, would bias it—and obviously this is a selfish kind of an observation—would bias that whole activity toward the shorter term credits and we're in the longer term credit business. So from a self-interest standpoint, I think the mechanics would tend to hurt us. I think that has caused some problems in the European models which do follow this same kind of approach.

Senator HEINZ. It's my understanding that West Germany is about the only Western European country that doesn't have direct credit type support vis-a-vis Eximbank, and I was just wondering if you understand how it works for them, whether or not their model would work here. But I gather no one feels sufficiently expert to tackle that question.

Mr. McGraw, you have decided to leap in where other angels feared to tread?

Mr. MCGRAW. I would only say that over the last 10 or 15 years that I've been dealing with putting together financing, our compa-

ny has done very little with Germany. But the other comment that I would like to make is that it seems that buydown—again, not knowing how it works—would be more costly to the U.S. Government than regular direct credits, for a simple reason related to the costs of commercial credits. I feel they would be much more expensive compared to U.S. Government borrowing. There has to be some basis points difference between the two.

Senator HEINZ. I've got some other questions I'm going to submit for the record if they don't get asked by someone else, but let me ask Mr. Moore this.

You made some very helpful comments about the small business programs of the Bank, programs that were specifically authorized by this committee and by the Congress, in large part by virtue of the work of people like Senator Mattingly of Georgia, Senator Proxmire—even though he doesn't like the Eximbank——

Senator PROXMIRE. I love the Eximbank. I just want to see it do the right thing.

Senator HEINZ. Particularly helping small businesses, particularly if they are dairy farms.

Mr. Richard Hughes was recently named as the small business representative on the Eximbank board. What input as far as you are aware did small business have in the selection of Mr. Hughes?

Mr. MOORE. I'm afraid I couldn't answer that question.

Senator HEINZ. I'm not going to ask Boeing that question. The answer is no known input, but you don't know?

Mr. MOORE. That's correct. I don't know.

Senator HEINZ. All right. Senator Proxmire.

Senator PROXMIRE. Mr. Thornton, you say on page 2 of your statement, "Uncertainty about continuation of support for Eximbank direct credits is so unfortunate."

Now do you view the buydown as increasing uncertainty for export subsidy?

Mr. THORNTON. Yes, I would view it that way.

Senator PROXMIRE. Well, if that's the case, why should the subsidy for exports be more certain and secure than other Federal subsidies that depend on the vagaries of the appropriation process—childhood nutrition, or Medicaid for the poor—or expenditures for the acquisition of Boeing aircraft for our national security. The buydown enables you to make the case with everybody else for your subsidy. Why shouldn't you do this on a fair, direct, and competive basis with all the other demands on the resources of this country? Why should you receive special treatment?

Mr. THORNTON. Well, first of all, I think that going to the direct subsidy of appropriated funds is a move from something that has been working, something that has contributed substantially to the progress that's been made in the negotiations with at least the Europeans, and that's where our competition is.

I think changing the method of doing that would send the wrong signal to the people in France, Germany, and the United Kingdom.

LOSSES FROM PRESENT SYSTEM

Senator PROXMIRE. I understand that. It's been working perhaps, but it's also been working to the detriment of the taxpayer. At

least there's a threat there. The Bank has been experiencing losses, successive losses in 1982, 1983, 1984, getting bigger each year. And there's a distinct possibility that its reserve will be exhausted and then the taxpayer has to come in with the full faith and credit of the Government and provide the difference.

It seems to me under these circumstances that it's prudent for us to provide for exactly the same procedures, no better, no worse, but on a fair basis with everybody else who's getting assistance from the Federal Government, especially now when we have such a very serious problem holding down Federal spending.

Mr. ANDREAS. Could I comment on that, sir?

Senator PROXMIRE. Certainly, Mr. Andreas.

Mr. ANDREAS. I do a lot of business out of Germany. The question was asked about Germany. My company does maybe 12 billion dollars' worth of business out of Germany, so I'm familiar with it. I once asked the Minister of Economics there, "How long are you going to proceed with this mixed credit program of yours which was announced originally as temporary?" He said, "Forever." "Are you every going to quit it?" He said, "No, absolutely not. No matter what you do or anybody does, we won't quit it. And the reason we won't quit it," he said, "is it's profitable to Germany. Every mixed credit we extend we see to it that we take in more money in the treasury than we spend."

Now I'd like to point out that in this country we think of it as an expense but we don't know how to keep the books.

Senator PROXMIRE. Mr. Andreas, let me just interrupt to say that I know of no agency that has more support in the Congress from Democrats or Republicans than the Eximbank. If you go before the Appropriations Committee you can make that case. Why shouldn't you be required to make that case? I think you can sell it. I think you've got a great product to sell, but you should be required to sell it the way everybody else does, not just have it come automatically from reserves.

Mr. ANDREAS. Wouldn't the thinking be a lot more clear if we ran it like every other business and bank is run? Instead of making it an appropriation and charging off the loan as though it were an expense and having it add to the deficit this month, which is what worries Mr. Stockman, if we would set it up in a corporation, capitalize it, revolve the money, lend it out and let the money come back, lend it again, and again, and again and not have this problem every year?

Senator PROXMIRE. We've done that for 50 years and now we're getting to the point where the losses are so great that we can no longer continue without the Federal Government starting to appropriate money. It just doesn't come back.

Mr. ANDREAS. Are losses that great if you consider what the Treasury gains by less unemployment insurance?

Senator PROXMIRE. You can make that to every single appropriation, whether it's education—they say, "You aren't losing money. This is an investment. You educate people and they have great skill and they produce more and the country is richer." You say the same thing. You deal with the farmers. We have the most productive agriculture in the world. We provide the kind of expendi-

tures to the Department of Agriculture and it comes back many times in a far more productive country.

I'm just saying you ought to make that case on a fair basis like everybody else.

BOEING A BIG BENEFICIARY

Now let me ask you this, Mr. Thornton. Your company has consistently been the No. 1 beneficiary of Eximbank financing, not always, but you're very close to it. You got 30 percent, as you say, of all the direct loans last year. Eximbank has been called, perhaps unfairly, the Boeing Federal Loan Co. This subsidy is now costing the taxpayer money. In 1981 and 1983 Boeing was reported to enjoy profits of $1.5 billion. Your corporation paid Federal corporation income taxes of zero in those years. In fact, you got a tax rebate of $267 million.

Now I want to congratulate your financial wizardry at Boeing. If we could get you and your lawyers and accountants to work for the Government we could get rid of the deficit in no time at all.

But do you see why your plea for avoiding the direct spotlight on your export subsidy seems a little self-serving?

Mr. THORNTON. I'm sorry?

Senator PROXMIRE. What we're trying to do is put the spotlight on this subsidy so that we know what it is and we don't just guess about it and very few people discuss it and the Appropriation Committee doesn't have it up for discussion. The Senate doesn't debate it. The House doesn't debate it. And what we would do with this buydown is to have an element that we could consider each year. As I said to Mr. Andreas, I think that you gentlemen and the people who support this program in the Congress could sell it, but I think they should be required to. They shouldn't get it automatically the way they do now.

What's your answer to that?

Mr. THORNTON. Well, there's a whole lot of questions there, Senator.

First of all, keep in mind Boeing is not being subsidized by Eximbank. It's the customers of Boeing.

Senator PROXMIRE. You said that before and that bothers me even more and I'll tell you why. You said Boeing isn't subsidized. Its customers are. Who are the customers? When you sell exports, they're foreigners overseas. We're subsidizing them. That doesn't appeal to me very much.

Mr. THORNTON. To the extent they are subsidized——

Senator PROXMIRE. That doesn't appeal to me very much or to people in Wisconsin. I wouldn't mind subsidizing Boeing. You're great people. You've got a wonderful Senator from Washington, your home State, sitting right here at the table. You've always had good Senators from your State, the best, and they represent your State, but there are not Senators here from Germany or Japan and I don't think there should be. I don't want to subsidize those folks. They can take care of themselves.

Mr. THORNTON. I said in my testimony that we do not want to subsidize them either. We would be happy to have the whole subsidy issue vanish.

Senator PROXMIRE. That's what happens, though, you just told us, when your customers are subsidized, not you.

Mr. THORNTON. But have it vanish for them. In other words, for example, the Eximbank does not finance into Europe to speak of—into Germany, France, and they have not financed in Japan for some time. So there's a great many places where they've been able to negotiate this so-called common-line agreement where neither side is subsidizing the financing and there's just no subsidy involved.

With respect to your comments on the taxes, I would just say a couple things. Your facts are correct. But this country decided to put incentives on exports, to put incentives on research and development, and they decided to put incentives on the investment in more productive plant and equipment.

The Boeing Co. is active obviously in exports and for the last 5 years we have spent over $600 million a year on research and development. Over the past 5 years we've spent over $450 million a year on investments in increasing the productivity of our plant and equipment. And that's the way the numbers came out and it's a timing thing.

So I think in the future, if those things pay off, those investments in research and development and equipment, taxes will be there.

Senator PROXMIRE. Very good.

Mr. McGraw, the Eximbank finances only about 5 percent of U.S. trade I understand. Don't you think that it's a bit exaggerated for you to say on page 2 of your testimony that is the Bank's direct credit authority is deleted this will close the door on future exports for material, equipment, and services from the United States?

Mr. MCGRAW. I was relating mostly to the views of other ECAT companies and my own personal view regarding the engineering and construction business.

Senator PROXMIRE. Those particular segments of American industry?

Mr. MCGRAW. That's true, sir.

Senator PROXMIRE. Why couldn't the Bank's proposed buydown subsidy be just as effective as the current Direct Loan Program?

Mr. MCGRAW. Again, I think it's a matter of continuity. It's a matter of personally not knowing how it's going to be done. I think it's going to cost the U.S. Government more.

Senator PROXMIRE. Well, I wish you would for the record—I don't mean to ask you to answer in detail now because we don't have time, but if you would like to give us in writing an analysis of why it would cost us more I'd like to see it because as I view it and as the staff and the other people I've talked to view it, and the administration, we could make it precisely the same. There's not reason why it should cost any more. There might be other objections to it but I don't see how it would necessarily cost more.

Mr. MCGRAW. I would like to do that.

[Response to written questions of Senator Proxmire and Senator Heinz which were subsequently submitted for the record follow:]

Kellogg Rust Inc.
Three Greenway Plaza · Houston, Texas 77046-0395

Donald R. McGraw
Senior Vice President-Finance
(713) 960-2044

25 February 1985

The Honorable William Proxmire
United States Senate
Washington, DC 20510

Dear Senator Proxmire:

I would like to again express my appreciation to the Senate Committee on Banking, Housing, and Urban Affairs for permitting Kellogg Rust Inc. to testify before this Committee on a subject which is not only of extreme importance to our future but to the future of the hundreds of other U.S. companies, large and small, who in the past had benefitted from projects awarded when competitive Eximbank financing was available. We were most encouraged by the appeal from the members of this Committee that our Eximbank remain viable with appropriate financial resources and strength to ensure that U.S. exporters no longer lose their market share overseas due to foreign government intervention in the form of special subsidies which do not comply with the Consensus Agreements.

During the course of our testimony, you asked me to respond to two questions in writing.

The first question concerned my statement that the elimination of the Direct Credit Program at Eximbank would virtually close the door on future exports of goods and services from the United States. In today's environment, where there is fierce competition amongst the world's engineering and construction companies, the successful bidder must have a competitive financing plan to complement his technical and commercial proposal.

Title VI of Public Law 98-181 was enacted at the end of 1983 and our impression was that it directed Eximbank "to support United States exports at rates and on terms and conditions which are fully competitive with exports of other countries." However, given the enormous amount of competition amongst contractors and their respective export credit agencies as best exemplified by our experience in Thailand, the limited amount of subsidies that will ultimately be available and the excessive costs which would result from the adoption of "I Match", I can say virtually without hesitation that the adoption of "I Match" will ultimately close the door on exports of U.S. equipment and services for overseas projects with foreign subsidized credits available. Already the reduced availability of competitive financing has resulted in lost opportunities for capital goods exports from the United States as well as significant moves toward offshore manufacturing.

The second question concerns the comparative cost of direct credits as opposed to the proposed "I Match" program. However, since details of the proposed "I Match" program are not completely known, my comments must be considered of a preliminary nature.

We believe the adoption of "I Match" as a means of replacing the Direct Credit Program at Eximbank will not only further weaken Exim's ability to offer competitive financing but will, in the end, cost the taxpayers more money. The

reasons are basically simple. Government debt has historically been less expensive than borrowing in the commercial marketplace and, to potentially make that spread even greater, one major money center bank hinted that they might put a spread over these cost of funds to cover U.S. government risk. To the extent that commercial banks are asked to provide funding over a period of 13-14 years, they will likely be forced into public sector financing which adds even more cost in the form of syndication fees.

Another important cost item which would surface is the Eximbank guarantee fee. Under the Direct Credit Program, commercial banks require a guarantee from Eximbank for the commercial and political risks associated with that part of the financing for which they provide funds (approximately 20% of the total financing). The cost of that guarantee is then added to the rate the borrower must pay. Under the "I Match" program the guarantee fee would now be assessed on eighty-five percent (85%) of the total financing. To be competitive, this would also have to be subsidized, adding even more cost to the taxpayer.

Equally important is the fundamental question as to whether or not banks should accept subsidies from the U.S. government, a problem which will be exacerbated if their profits improve. There is likely to be pressure to ultimately eliminate the subsidy program to banks because of the notion that they are making too much money and could well afford to take some of these economic risks. Needless to say, the banking community is not likely to look favorably on this, arguing they should not be placed in the position of having sole responsibility for supporting U.S. exports. This function, rightfully, has been tradionally reserved for governments.

"I Match" will also have a great impact on the relationship between the export community and their bankers. Traditionally, commercial banks have played a key role in helping an exporter win a sale overseas by offering a financing package to the overseas borrower. Under "I Match" exporters will no longer be able to choose which banks they can use and, in fact, the determination of the bank only occurs after the U.S. exporter wins the sale. Thus, not only does "I Match" reduce the likelihood of competitive financing and severely restrict the amount available at fixed rates, but it essentially destroys the relationship that banks and exporters have had in pursuit of overseas business. There is no longer any incentive for commercial banks to work with exporters since they cannot be assured of the business should the exporter be successful with his sale.

We are also concerned that the adoption of "I Match" would arm Exim with the argument that they have limited subsidies available and must spread them evenly throughout their fiscal year. That could mean that exports towards the end of any fiscal year have a better chance of approval than those occurring during the beginning.

Finally, Exim states that the subsidies will come from its reserves. While this may have little immediate effect, ultimately Eximbank could become so undercapitalized that Congress will have to appropriate new money to ensure the Bank has adequate capital.

We appreciate the opportunity you have extended to us to be heard on a subject which affects the future of hundreds of companies throughout the United States. We hope your tireless and successful efforts to adopt Title VI of Public Law 98-181, which was to make Eximbank competitive, will ultimately prevail so that once again U.S. industry can look offshore for business opportunities.

Yours sincerely,

D. R. McGRAW

DRM:rms

Kellogg Rust Inc.
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Donald R. McGraw
Senior Vice President-Finance
(713) 960-2044

25 February 1985

The Honorable John Heinz
United States Senate
Washington, DC 20154

Dear Senator Heinz:

I would like to again express my appreciation to the Senate Committee on Banking, Housing, and Urban Affairs for permitting Kellogg Rust Inc. to testify before this Committee on a subject which is not only of extreme importance to our future but to the future of the hundreds of other U.S. companies, large and small, who in the past had benefitted from projects awarded when competitive Eximbank financing was available. We were most encouraged by the appeal from the members of this Committee that our Eximbank remain viable with appropriate financial resources and strength to ensure that U.S. exporters no longer lose their market share overseas due to foreign government intervention in the form of special subsidies which do not comply with the Consensus Agreements.

During the course of our testimony, you asked me to comment on how the "I Match" program would have affected the fertilizer project in Thailand for which Kellogg submitted a bid. Since Eximbank offered consensus terms which were not competitive with "mixed credit" offers from other countries, the "I Match" program would not have affected the Thailand project at all.

In our formal testimony on 05 February, we noted that not less than eight industrialized countries of the world offered "mixed credits". The only way Eximbank could have been competitive would have been to mix AID support and Eximbank direct credits to achieve a reduced overall interest rate. This offer would have been in accordance with the competitiveness mandate on mixed credits enacted by Congress in 1983; yet Eximbank chose to be uncompetitive by offering the consensus terms.

Further, I find it disturbing that Mr. Draper advised our Chairman, Robert W. Page, that competitive concessionary financing on the Thailand project would have cost the Eximbank $100 million over the length of the project even though they were only going to lend $90 million in direct credits. A copy of his letter to Mr. Page is attached. In addition, Mr. Draper's analysis of the costs does not take into account

the additional follow-up sales that the project would have resulted in. These follow-up sales would not have required Eximbank support but would have brought increased sales for U.S. suppliers.

We appreciate the opportunity you have extended to us to be heard on a subject which affects the future of hundreds of companies throughout the United States. We hope your tireless and successful efforts to adopt Title VI of Public Law 98-181, which was to make Eximbamk competitive, will ultimately prevail so that once again U.S. industry can look offshore for business opportunites.

Yours sincerely,

D. R. McGRAW

DRM/RCR

Attachment

May 24, 1984

President and Chairman

Mr. Robert W. Page
President and Chief Executive Officer
Kellogg Rust Inc.
Three Greenway Plaza
Houston, Texas 77046

Dear Bob:

I am writing in reply to your May 8 letter concerning the Thailand Fertilizer Project. In this week's Board of Directors meeting Eximbank's Board decided to provide a preliminary commitment for the project at a consensus-level rate (9.5%) and repayment term (10 years).

Eximbank shares your deep concern for the use by other countries of mixed credits for predatory competitive purposes. We are continuing to place the highest priority on negotiating an OECD agreement on restrictions which would end these trade-distorting practices. As an aid in negotiating with other countries to reduce or eliminate these practices Eximbank is carefully targeting its mixed credit matching program to those cases that have maximum impact to advance these negotiations. Eximbank's matching of mixed credit competition must be carefully targeted because of the tremendous cost to the U.S. taxpayers of offering mixed credit terms.

In the case of the Thailand Fertilizer Project, the competing consortia involve various combinations of firms from more than one country. As a result, a mixed credit offer from the U.S. would have the undesirable effect of joining with the Japanese and the French in mixed credit proposals, rather than opposing them. It is difficult to justify a subsidy cost of over $100 million for a case where no targeting benefit to the U.S. negotiating position can be determined.

The offer Eximbank is making for this project at 9.5% interest rate is a highly concessionary offer when compared to even U.S. Treasury rates. We also have included our guarantee offer which enables the U.S. suppliers to arrange highly attractive financing in low interest rate currencies, such as the Swiss franc and Japanese yen which run as low as 6.5 to 8.0%. We hope that this offer will be useful to the U.S. exporters pursuing this project.

Best regards,

William H. Draper III

Senator PROXMIRE. I wish you would do that. That would be very helpful.

My time is up.

Senator HEINZ. Senator Gorton.

Senator GORTON. Mr. Thornton, if the current Direct Lending Program were replaced with an interest buydown as the administration has proposed, are you satisfied that private banks in the United States would be willing to extend credit to all of the nations with which and in which you do business?

Mr. THORNTON. I'm not certain of that. There are a lot of uncertainties involved with the whole proposal because it is brand new. I do think that it would skew the activity of Eximbank toward the shorter maturities in those countries as well as in other countries for the reasons that I've mentioned earlier.

Senator GORTON. And that makes it particularly difficult for large ticket items like aircraft?

Mr. THORNTON. That's right because we're in the long end of the spectrum. It would hurt others, too—the nuclear power generating equipment and so forth.

Senator GORTON. What do you think the European reaction would be in the credit subsidy negotiations if we were to terminate the Direct Lending Program?

HARDSHIP ON OUR NEGOTIATORS

Mr. THORNTON. I have said I think that would be a hardship on our negotiators. I think that we would be sending the wrong signal to the Europeans that we were changing into an unknown kind of a field which is, I think, the principal reason that I'd like to see it not go away.

Senator GORTON. In summary, if the changes propsoed by the administration to the Eximbank were made, do you feel that your company's exports would be enhanced, not affected at all, or hurt?

Mr. THORNTON. Well, I'm not going to say that the Boeing Co. would go bankrupt, first of all. I think that there would be—if that proposal were adopted, I think there's going to be a likelihood that we would be hurt but not a drastic hurt.

Senator GORTON. How about the other people here on the panel, do you want to comment on that question?

Mr. MOORE. I would like to refer to my written testimony, in which I emphasized the importance of the small business distributor in export sales. In almost every case, the exporter of machine tools—except for the very large ones—works through distributors. These distributors take the responsibility right from the initiation of the interest by the customer to describing the specs of the equipment to the financing of the equipment to the customer. And one of the ways to strengthen the Eximbank is to involve the distributors because that, for us, is where the action takes place. In fact, they may buy the machine that we sell to the customer.

What is needed is clarity and continuity with our distributors overseas—especially, for example, in China or Indonesia where there currently is a burgeoning machine tool market. And although this is a new proposal that has not been totally explained, it does seem to me that the description has some obscurity in how

it would work out. If anything, these distributors overseas—who don't know U.S. practices—are looking for simplicity and ease of access to Eximbank facilities.

So it appears to me that it would be, in our case, very difficult for the distributors to grab onto this concept as it's been described.

Senator GORTON. Does anybody else want to comment on this?

Mr. GOLDBERG. I'd like to make a comment if I may. Boeing has a primary responsibility to their stockholders and employees. Mr. Thornton mentioned that he believes this change would have a negative effect but not a serious negative effect.

As Boeing production is reduced, they do take seriously their responsibility for their stockholders and employees and a reasonable area to cut first is outside procurement. Let's keep our own people working. So if Boeing sales shrink by 10 percent, I think it's reasonable to assume that the work effort at Boeing may shrink 10 percent or less and the work at their small business subcontractors may shrink an awful lot more.

That has been our history. We understand it's part of the risk of doing business. We think it's totally appropriate. But I think a minor effect on Boeing would be more than a minor effect on many of the subcontractors.

Senator GORTON. Mr. Thornton, what proportion of the price of an airliner that you assemble and sell remains with Boeing and what goes with the subcontractors?

Mr. THORNTON. It depends on the model. The 747 is about 50–50. We put in a little less than half of the effort and the other half is outside. In the case of the 737, for example, it would run about two-thirds to one-third. We do about two-thirds and the others do about one-third. On balance, maybe 60–40.

Mr. MOORE. Senator Gorton, I don't know of any Airbuses that would be built with American machine tools.

Senator GORTON. Thank you very much.

Thank you, Mr. Chairman.

Senator HEINZ. Gentlemen, I'm going to submit many of my questions to you in writing. Senator Proxmire, do you have any more questions?

[Response to written questions of Senator Heinz follow:]

Boeing Replies to Questions Posed by Senator Heinz

from DEAN THORNTON, Senior Vice President

Question 1. The United States is now down to two companies in the commercial aircraft industry, your company and McDonnell Douglas. Your main foreign competition comes from Airbus Industries, which is owned by several European governments. French banks are owned by the French Government, and several other member governments of the Airbus consortium have greater influence over their banks than we do over ours. Without an Eximbank direct lending program, do you believe that you will be able to obtain competitive financing from commercial lenders? Do you expect that an Exim interest rate buy down program will be able to give you competitive financing with regard to term? What do you estimate your needs for Eximbank financing to be for 1986?

Answer:

At no time since the advent of Commonline (August 1981) have fixed rates (inclusive of the Eximbank guarantee fee) offered by PEFCO for loan draw down in 12 to 18 months from time of rate quote been equal to or lower than the minimum U.S dollar lending rate established by Commonline. PEFCO is the only reliable source of fixed rate loans available under the Exim guarantee. Commercial banks will not quote fixed rates for long term loans and other long term fixed rate lenders such as pension funds and insurance companies do not find the Eximbank guarantee acceptable in its present form primarily because of the transferability restrictions that have been imposed on the guaranteed notes. As a result, if the Eximbank direct lending program is eliminated without a fully operative and funded alternative, competitive financing will not be available from commercial sources. Boeing would be at a disadvantage vis-a-vis Airbus - the degree of which will depend on the level of market interest rates.

If an effective interest rate buy down program with sufficient resources is fully operational, Eximbank's guarantee is provided, and PEFCO continues to be a reliable source of fixed rate loans, we believe financing would be available for the maximum repayment term allowed by Commonline.

Boeing's current projection of our need for Eximbank financing in FY '86 is in the range of $400 million to $1.1 million in direct loans and $45 million to $150 million in guarantees.

Question 2. Under the buy down arrangement what do you expect to happen to funding for a large, expensive project for a country like Thailand if that request comes in late in the fiscal year?

Answer:

We are concerned that the limited amount of buy down funds will be insufficient to cover all legitimate needs if exports revive from the abnormally low level of the past several years. In such an event, Eximbank will probably try to avoid supporting large projects which use a significant portion of a small budget and will, instead, stretch the limited funds over as many smaller applications as possible. There probably would be a reluctance to commit funds to a large project or big ticket items such as aircraft anytime during the year. Naturally, if the budget is nearly exhausted, it would be unlikely that a large project would receive a commitment late in the year.

Another concern regarding the limited buy down budget proposed is the possible skewing of buy down funds towards richer markets simply because less budget is required to do business there. LDCs are presently eligible for lower rates (for sectors other than aircraft) than are richer countries. As a result, it will take more buy down budget to do a deal in an LDC than a similar project in a richer country. The tendency to allocate limited budget resources would inevitably work against the poorer LDCs.

Question 3. The United States has an aircraft "Commonline Agreement" on official credits with France, Britain and West Germany. Will Eximbank be able to match terms and rates under that agreement without a direct lending program? Do you see the Europeans having any incentive to abide by the Commonline agreement once Eximbank is out of the direct lending business?

Answer:

If the current Commonline negotiations produce an export rate which is at least 165 basis points (including the 50 basis point guarantee fee charged by Eximbank) above the Treasury borrowing rate for similar maturities then we believe that an Eximbank guaranteed PEFCO loan would be competitive. If the agreement does not produce a rate spread of this size (and indications at this point are that it will not) then we would not be competitive without an Eximbank direct credit program. If the U.S. Eximbank direct credit program is eliminated and an inadequately funded buy down program (or no program) is established, U.S. manufacturers could not obtain commercial funding to match Commonline terms.

We do not believe the elimination of the direct credit program will encourage the Europeans to violate Commonline. Why would they violate the agreement if they have an advantage while still adhering to it? We do believe that elimination of the Eximbank direct credit programs would weaken the U.S. bargaining position with respect to negotiating the desired changes to the agreement.

Question 4. Do you believe that American aircraft manufacturers can get commercial financing as easily and on comparable terms as Airbus can from European banks? If not, why not?

Answer:

If the financing is provided on a strictly commercial basis without export credit agency involvement; the availability and terms and conditions of the loan will be dependent upon the creditworthiness of the borrower. Consequently, the financing for Airbus and U.S. produced aircraft should be comparable.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR HEINZ
FROM DWAYNE O. ANDREAS

Question: Under the new buy-down arrangement what do you expect to happen to funding for a large, expensive project for a country like Thailand if that request comes in late in the fiscal year?

Answer:

The answer to the Thailand project hypothetical depends on whether: (a) the Eximbank "buy-down" arrangement is adequately funded; (b) Eximbank both guarantees and provides "buy-down" financing, and (c) if Eximbank considers the particular project a key strategic transaction in terms of U.S. leverage in OECD mixed credit negotiations.

With regard to (a), the proposed Interest Rate Marching Program (I-Match) program will necessitate a separate appropriation. Projects for "buy down" financing will be considered on a "funds available" basis, and this would put a project presented late in the fiscal year at a disadvantage.

If Eximbank both guarantees and provides "buy-down" financing (b) no significant additional time lag should be encountered. If it is not, however, conceivably an additional step will be added in the financing process, namely prior commercial bank review and approval before submission to Eximbank.

As to (c), if Eximbank considers the project important in the context of OECD mixed credit negotiations it would probably get quick review and approval. If it is not considered as such, or there are strong differences of view within the U.S. Government, the project probably would not be so financed.

Question: Do you expect Exim to be more willing or less willing to offer mixed credits in FY 1986? What will this mean for U.S. exporters? Reportedly OMB has instructed Exim to do mixed credits only through AID. What will this mean?

Answer:

I expect Eximbank to be about as willing to offer mixed credits in FY 1986 as it was in FY 1984 or FY 1985. At the same time, OECD governments are likely to continue to emphasize trade as the way out of their domestic economic difficulties, thereby increasing government-supported international competition for U.S. exporters.

If OMB has instructed Eximbank to only do mixed credits through AID I think it reflects a misunderstanding of the problem. AID is neither sufficiently funded, staffed, or an appropriate vehicle for financing mixed credits.

By limiting any U.S. mixed credits program to those countries eligible for AID financing, the U.S. Government removes itself from several important LDC markets. The U.S. mixed credit threat is thus substantially diluted, adversely affecting the chances for a successful negotiated solution.

Question: How do you think the Bank should be more aggressive in fighting mixed credit offers? What would the best strategy be? Would it be better to target a few spectacular cases, or to match every case as it comes up?

Answer:

I think Eximbank should be substantially more aggressive in combatting mixed credit offers. Its best strategy would be to devise a simplified administrative approval process which will allow U.S. industry to seek Eximbank mixed credit support. Priority treatment should be given to 'spectacular cases' involving the worst foreign government offenders, e.g. those countries who most actively engage in these predatory practices. Sufficient resources ought to be made available, administered through a quick responding Eximbank mechanism, to make the U.S. message patently clear to major mixed credit country offenders : "Either negotiate to roll back mixed credits or face the full force of U.S. economic power."

Question: What part does direct credit play in any mixed credit offer? Could an interest rate buy down take its place?

Answer:

As I understand the proposed "buy down" approach, it would provide the assistance necessary to make up the difference between the market interest rate and the applicable OECD rate. If it is to be successful, the "buy down" approach will have to fully match the competition, as seen from the purchaser's perspective. In some cases this may require more than simply matching market rate-OECD rate differentials, e.g. covering additional commercial bank costs and other factors. Further, not only must the U.S. financing offer be competitive as seen by the purchaser, it must be presented to the purchaser in a timely manner.

Question: How do you think our negotiations will be affected by the decision to end direct credits?

Answer:

Unless fully promoted and actively used, a decision to replace the direct lending program with an "I-Match" subsidy fund will send the wrong signal to OECD countries engaging in mixed credit practices. We need to demonstrate our willingness to stand tough in the negotiations. To continue progress in reversing the growth of mixed credit financing we need to negotiate from a position of strength and be perceived as such. Unless properly orchestrated, other countries will interpret our shifting to a "buy down" approach as a weakening of U.S. Government resolve to support U.S. industry in developing country markets. They will take it as a signal we are half-hearted in our support of trade, and they will be right.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR HEINZ
FROM WAYNE MOORE

Q. 1. As a small businessman and a member of the Advisory Committee to Exim, what one thing would you recommend that the Bank do, what one change or innovation could they make, that would most improve the export situation for small business?

A. 1. The Bank needs to exhibit a greater awareness of the way in which small business export sales are actually carried out. For example, my written statement documents the crucial role played by the overseas distributor in machine tool export sales. Such sales typically involve amounts less than $250,000. Because local U. S. banks -- even those participating in Eximbank programs -- generally are reluctant to process loans for amounts below $250,000, the small U. S. exporter, who almost always solicits overseas sales through a distributor, is saddled with a substantial disadvantage in the international marketplace.

What happens is that once the distributor locates a potential overseas customer, he is frequently unable to offer that customer favorable terms. The distributor for the U. S. supplier is forced to require a cash transaction in the form of an irrevocable letter of credit, payable at time of shipment. The customer often is, understandably, unable (or unwilling) to meet these terms and must therefore turn to suppliers from other countries who offer more flexible financing packages. Distributors, who also represent the industry's foreign competitors, stand in a ready capacity to assist these customers. The American exporter's loss thus becomes his competitor's gain.

My own company's experience as a small business exporter has confirmed that, in order to remain a viable force in world markets, American manufacturers competing for overseas business must be in a position to offer methods of favorable financing. The Bank must recognize that the availability of such methods will encourage distributors to pursue and promote the sale of American products, thereby enhancing the position of American exporters within the foreign distribution network -- a network which is essential to small business export sales.

NMTBA recently initiated discussions with Exim officials to consider the feasibility of establishing a pilot program which would assist the Bank in addressing this deficiency. Details of the NMTBA proposal are outlined at pages 12-13 of my written statement.

Q. 2. **The Bank boasts that in FY'84 20.9% of their support went for small business exports, although the figure is 9.8% of the Bank's direct loans, and only 1.7% of the Bank's medium term credits. These of course are also percentages of a very small pie, since the Bank did not even come close in FY'84 to using its full lending authority. Is the general impression among the small business community that the Bank is doing more or less for small business?**

A. 2. I believe there is a recognition that, in recent months, the Bank has stepped up efforts to become more responsive to the needs and concerns of small business. In this regard, the Bank is currently mounting an aggressive marketing campaign geared toward reaching out to both smaller, less-experienced exporters who may be entirely unaware of ongoing Eximbank programs which are tailored expressly for the small business export community and to small businesses which exhibit untapped export potential. This development is especially gratifying to NMTBA, since small businesses represent the vast majority of machine tool establishments.

However, while NMTBA commends these efforts, we firmly believe that none of the Bank's existing programs adequately address the needs of small business exporters seeking to finance transactions which involve amounts below $250,000. The "mechanics" of this deficiency are discussed in my response to Question No. 1.

Q. 3. **Chairman Draper said in his testimony, "We have been especially active in encouraging small and medium-sized businesses to increase their exports through Eximbank programs. In all, 13% of our fiscal 1984 budget authority was used to support small business activity. That is more than double the set aside requirement in the 1983 legislation." Has this jibed with your experience? Has this been easily accessible?**

A. 3. As noted above, export financing for transactions involving amounts below $250,000 is very difficult to come by. Therefore I would have to say that the Bank's financial support for small business activity has not, in this regard, been "easily accessible."

Senator PROXMIRE. No additional questions.

Senator HEINZ. All right. Senator Gorton.

Senator GORTON. Nothing further.

Senator HEINZ. Gentlemen, thank you all very much for being with us.

The hearing is adjourned.

[Whereupon, at 12:10 p.m., the hearing was adjourned.]

[Additional material supplied for the record follows:]

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MACHINERY and ALLIED PRODUCTS INSTITUTE

1200 EIGHTEENTH STREET, N.W. WASHINGTON, D.C. 20036 202-331-8430

December 27, 1984

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

The Machinery and Allied Products Institute (MAPI) wishes to comment on reports that the Office of Management and Budget has proposed to eliminate Export-Import Bank direct lending in the fiscal year 1986 Budget.

We believe that MAPI is in a unique position to evaluate this proposal and its effects if implemented. The Institute is the national organization of capital goods and allied product manufacturers. Its membership includes a broad range of producers of machinery (electrical and nonelectrical), industrial equipment, components, cutting tools, farm equipment, graphic arts equipment, electronics, scientific and industrial instruments, controls, forgings, testing equipment, etc. In addition to traditional capital goods product lines, MAPI's constituency includes leading companies in the electronics, precision instruments, telecommunications, computer, office systems, aerospace, and similar high technology industries. Our membership is heavily engaged in exports to all major world markets, and is a substantial user of Export-Import Bank programs.

Before offering our views in detail, we should acknowledge our sympathy for, indeed MAPI's overall concurrence in, the Administration's drive to reduce government expenditures in an effort to deal with the serious deficit. On the other hand, I am sure you will agree that each proposal relating to this goal must be examined carefully on its merits and in the light of formulation of sound national policies. We believe strongly that the proposal as to Eximbank direct lending would be counterproductive in a number of ways. Above all, it would further erode the international competitive position of American industry which, in turn, would lead to loss of business and reduced employment, thereby causing a reduction in federal revenues. Thus, the other side of the deficit reduction equation--the need for increased revenues--would be adversely affected.

As we understand it, under a preliminary federal budget proposal, Eximbank's direct loan authority, which amounts to $3.86 billion for the current fiscal year, would be eliminated. This action would prevent U.S. exporters from

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being able to offer fixed-rate financing on competitive terms--particularly with respect to interest rates--for medium- and extended-term transactions on which there is foreign officially supported export credit competition. The facts are as follows:

-- At present private market rates, neither floating interest rates offered by commercial banks nor fixed-rate financing provided by the Private Export Funding Corporation (PEFCO) would be competitive with the minimum rates under the International Arrangement on Guidelines for Officially Supported Export Credits which are offered by major competitors.

-- The difference between private U.S. market interest rates and the minimum interest rates established under the Arrangement is likely to widen in January 1985 when it is expected that the Arrangement minimum rates will be lowered by at least one-half of one percentage point.

-- An increasing--and already substantial--portion of international projects involve tied-aid ("mixed") credits with interest rates and maturities far more concessional than the terms of the Arrangement.

The elimination of Eximbank direct credits would result in a further erosion of the U.S. competitive position through the loss of orders to foreign competitors and through U.S. firms increasingly shifting their sourcing for foreign sales to overseas manufacturing facilities. In view of the United States' huge merchandise trade and current account deficits, it is a most inopportune time to take an action which would substantially adversely affect U.S. export competitiveness.

We ask that the proposed elimination of Eximbank direct lending be reconsidered before the final Budget is submitted to the Congress. As explained in more detail later in this letter, we believe that the proposal to eliminate Eximbank direct loans:

-- Is contrary to the long-standing "competitiveness mandate" provision of the Export-Import Bank Act, a provision that was strengthened only a little over a year ago. The pertinent provision of the Act is as follows:

> It is further the policy of the United States that loans made by the Bank in all its programs shall bear interest at rates determined by the Board of Directors, consistent with the Bank's mandate to support United States exports at rates and on terms and conditions which are fully competitive with exports of other countries, and consistent with international agreements. . . . The Bank shall consider its average cost of money as one factor in its determination of interest

> rates, where such consideration does not impair the Bank's primary function of expanding United States exports through fully competitive financing. . . . [Emphasis supplied.]

-- Would contribute, perhaps significantly, to the already substantial loss of capital goods production from the United States. The share of capital goods production exported declined from 28 percent in the second quarter of 1980 to 21 percent in the second quarter of 1984, and during the first half of 1984 the trade balance in capital goods turned negative. For a number of reasons, largely because of the strong dollar and higher manufacturing costs here, U.S. firms are shifting to foreign sources the production of capital goods for foreign markets which formerly was carried out in the United States. While these are the principal reasons for such shifts, the availability of competitive export financing is an important factor in some cases.

-- Would seriously jeopardize any chance the United States might have to negotiate improvements in the international Arrangement on Guidelines for Officially Supported Export Credits to limit the increasing use of tied-aid credits. During the first nine-and-a-half months of 1984 Eximbank was able to confirm that foreign competitors had offered tied-aid credits in transactions with an export value of some $500 million; in addition, the Bank received unconfirmed reports concerning an even larger volume of transactions. The U.S. government's effort to counter these offers has been very modest and negotiations to limit the use of such credits have not been successful. Since the elimination of Eximbank direct lending authority probably would further handicap U.S. efforts to counter tied-aid credits, we doubt that the U.S. negotiators would have enough of a "stick" to achieve any meaningful improvements in the Arrangement.

Elimination of Eximbank Direct Lending Would Be Contrary to Export-Import Bank Act

For a number of years the Export-Import Bank Act has contained provisions aimed at encouraging the Bank to offer loans, guarantees and insurance at rates and on terms and conditions competitive with those offered by the governments of the principal countries whose exporters compete with U.S. exporters. However, the Bank has not always done so (especially in direct loan activity), citing other provisions in the Act requiring that the Bank consider its average cost of money in determining interest rates and the Bank's tradition as a self-sustaining institution. As noted at the outset, in 1983 the Congress, in P.L. 98-181, strengthened the Act's competitiveness language to make clear that the statutory mandate requiring that the Bank

provide loans, guarantees, and insurance on terms competitive with those offered by major competitor nations is to be given more weight than the provisions concerning its average cost of money or the self-sustaining tradition. The 1983 amendments to the Export-Import Bank Act also mandated that the Bank, in order to be competitive in all of its financing programs, establish a program that provides medium-term financing "where necessary to be fully competitive."

Finally, other provisions of P.L. 98-181: (1) direct the President to vigorously pursue international negotiations to limit and set rules for the use of tied-aid ("mixed") credits, and (2) establish within both Eximbank and the Agency for International Development (AID) a program to permit U.S. exports to be supported by a combination of Eximbank, AID, and private financing. Without Eximbank direct loan authority, it is very unlikely that either international negotiations to limit tied-aid credits can be successfully completed or that the United States will have a viable program to match the tied-aid credits offered by competitors. (The matter of tied-aid credits is discussed in more detail later in this letter.)

Proposal Would Contribute to Already Massive Shifting of Production to Foreign Sources

The elimination of Bank direct lending will contribute, perhaps significantly, to the already massive loss of capital goods and other manufacturing production to foreign plants, as well as the shifting of sourcing by U.S. firms to their foreign facilities. The United States will experience a foreign trade deficit of about $130 billion in 1984 and no improvement, and perhaps a worsening, is expected in 1985. Perhaps even more significantly, the deficit on current account will exceed $100 billion in 1984 and no improvement in that account is expected in 1985. While Eximbank's direct lending programs can make only a limited contribution in the face of deficits of this magnitude, we believe it would be unwise to eliminate or reduce a program which contributes to U.S. export competitiveness.

A recent MAPI study, "The Capital Goods Recovery--Why Some Lag Behind," documented the extent to which, despite phenomenal growth in real spending in the United States for producers' durable equipment, the strong U.S. dollar and international market conditions have resulted in U.S. capital goods producers selling fewer capital goods here and abroad than they did in 1979. The principal conclusions of this study, a copy of which is attached, are as follows:

-- In the second quarter of 1984, domestic purchases of producers' durable equipment were 29 percent above the low recorded in the last quarter of 1982 and 14 percent above the previous record peak. However, worldwide (i.e., U.S. and export) sales of U.S.-produced equipment were only 18 percent above the recession low and were still 3 percent below the all-time peak recorded in the final quarter of 1979.

-- As for capital goods exports, between mid-1981 and late-1982, they declined by more than 25 percent and have remained close to that level since. Further, the share of U.S. capital goods production going into exports declined from 28 percent in the second quarter of 1980 to 21 percent in the second quarter of 1984.

-- As for capital goods imports, they have increased significantly since 1967 both absolutely and as a share of domestic purchases. In the first half of 1984 capital goods (in real terms) were imported at a $28 billion annual rate, representing 23 percent of U.S. purchases of producers' durable equipment. Significantly, during this period the trade balance in capital goods turned negative for the first time in many decades.

This trend in imports of producers durable equipment is consistent with one which is emerging for purchases by capital goods firms generally. In September 1984 MAPI published the "MAPI Survey on Global Sourcing as a Corporate Strategy," which reflected the results of a survey of the global sourcing practices of 97 firms in the capital goods industries. Of particular interest, the survey found that, on the average, about 12 percent of those firms' domestic (U.S.) purchases come from foreign sources. The purchases include not only machinery and equipment but also a wide range of other manufactures as well as basic materials. The principal motivating force behind U.S. firms' purchases of capital goods abroad is an attempt to remain competitive by controlling costs.

Shifting of production to foreign affiliates.--Another side of the U.S. competitiveness problem--although one which cannot be documented so clearly--is the shift of sourcing for foreign markets from the United States to overseas manufacturing facilities of U.S. firms. That is, for competitive reasons U.S. firms are shifting to foreign sources (their own affiliates, licensees, and firms under contract) production for foreign markets which was formerly carried out in the United States. While such sourcing decisions are made for a number of reasons, particularly lower cost, the availability of competitive export financing is also an important factor in many such decisions.

MAPI survey of exports shifted to affiliates in 1981 because of financing.--The importance of the availability of competitive export financing in sourcing decisions is illustrated by the results of a MAPI survey of a limited number of its member companies covering instances during 1981 in which they sourced from a foreign subsidiary or other foreign affiliate in order to provide competitive financing. (During 1981 the Export-Import Bank was inoperative for several months while the new Administration was developing its policies, and subsequently was lending at interest rates well above those of its major competitors for the remainder of the year.) Of the 39 companies surveyed, 14 reported that 39 transactions, with a dollar value of $386.7 million, were diverted in 1981 to foreign affiliates primarily, if not exclusively, because of more attractive export financing. For reasons we need not detail here, these results understate the exports "lost" to affiliates by the reporting companies.

Concluding comment on shifting of production to foreign sources.--Much of the business lost to foreign sources, affiliated and unaffiliated, may not return to the United States for the foreseeable future. The shifts which have taken place--due in large part, but by no means entirely, to the high value of the dollar--may become permanent because of the upgrading of the technology and the state-of-the-art production experience of the foreign producers. In addition to the cost advantages of many foreign locations, in those cases where heavy equipment and/or large projects are involved, companies may elect to centralize production of certain items--particularly those requiring extended financing terms--in countries where there is the prospect of more consistent export financing support than in the United States.

Capital goods orders lost currently also result in substantial losses of future business. Many orders for "big ticket" items, such as capital goods, are placed at infrequent intervals--in many cases at intervals of several years, or even a decade. When the initial order is lost to a foreign competitor, that competitor obtains the substantial business in repair parts and spares which follows for a number of years and also is more likely to be the favored supplier when there are additions to capacity. It should be noted that shipments of parts, which over a period of years tend to equal the dollar volume of the original equipment, do not normally require government-supported financing.

The Proposal Would Seriously Jeopardize Any Chance of an International Agreement To Limit Tied-Aid Credits

As international competition has intensified in recent years, major competitor nations increasingly have offered tied-aid ("mixed") credits--i.e., credits consisting of a mixture of conventional export financing, public or private, and highly concessionary, foreign-aid-type financing. While data on the full extent of this practice is not obtainable, it appears that tied-aid credits are now being encountered on a substantial portion of the larger international projects. During the period January 1, 1984 through October 12, 1984 Eximbank was able to confirm 22 offers by foreign competitors totaling about $500 million in export value and received unconfirmed information concerning a much larger number of offers. Although the Congress authorized Eximbank and AID to match foreign mixed credit offers in legislation enacted last year, the effort to date has been very modest.

Negotiations to limit tied-aid credits through the international Arrangement on Guidelines for Officially Supported Export Credits have not been successful. Since elimination of direct lending authority would further handicap any U.S. effort to counter tied-aid credits, we doubt that U.S. negotiators would have enough of a "stick" to achieve any meaningful changes in the Arrangement.

It should be noted that the proposal to eliminate Eximbank direct lending is contrary to one of the major recommendations contained in the report of the President's Task Force on International Private Enterprise which

was issued earlier this month. Among other recommendations, that group recommended that the executive branch:

* * *

> 4. Counter the oppressive foreign trade subsidies by our foreign competitors by adopting a policy that "fights fire with fire." Specifically, A.I.D. and the Export-Import Bank should blend their resources and Eximbank should use the full extent of its authority to fight foreign trade subsidies. This could amount to a mixed credits program of several billion dollars from Eximbank's existing authority. (Eximbank last year used about half of its authority.)

* * *

Please let us know if MAPI can be of assistance in the Administration's deliberations concerning the Export-Import Bank.

Sincerely,

Charles Stewart

President

ccs: The Honorable Malcolm Baldrige
Secretary of Commerce

The Honorable Donald T. Regan
Secretary of the Treasury

The Honorable William E. Brock
U.S. Trade Representative

The Honorable George P. Shultz
Secretary of State

The Honorable Ford B. Ford
Under Secretary of Labor

The Honorable William H. Draper III
President and Chairman
Export-Import Bank of the United States

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MACHINERY and ALLIED PRODUCTS INSTITUTE

1200 EIGHTEENTH STREET, N.W. WASHINGTON, D.C. 20036 202-331-8430

February 12, 1985

The Honorable Jake Garn
Chairman, Committee on Banking,
Housing and Urban Affairs
United States Senate
534 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Garn:

We welcome the opportunity to comment on Export-Import Bank operations in connection with your committee's oversight hearings on the Bank. Our comments are directed to the proposals contained in the federal Budget for Fiscal Year 1986 that would (1) terminate all direct lending by the Export-Import Bank and (2) authorize an interest rate subsidy program to enable private lenders to offer interest rates at the minimums agreed upon in the international Arrangement on Guidelines for Officially Supported Export Credits. We ask that this letter and the attachments be made a part of the record of the hearings.

As you may know, MAPI represents the capital goods and allied products industries of the United States. In addition to traditional capital goods product lines (e.g., machinery and other industrial equipment), MAPI's constituency includes leading companies in the electronics, precision instruments, telecommunications, computer, office systems, aerospace, and similar high-technology industries.

Proposed Elimination of
Eximbank Direct Lending

Following reports late last year that the Office of Management and Budget (OMB) had recommended that Eximbank's direct lending programs be eliminated beginning in FY 1986, MAPI sent a letter to President Reagan setting forth our objections to the proposal. The text of our letter to the President is attached. In brief, as our letter to the President states, we believe that the proposal to eliminate Eximbank direct loans:

-- Is contrary to the long-standing "competitiveness mandate" provision of the Export-Import Bank Act, a provision that was strengthened only a little over a year ago.

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-- Would contribute, perhaps significantly, to the already substantial loss of capital goods and other industrial production from the United States. For a number of reasons, largely because of the strong dollar and higher manufacturing costs here, U.S. firms are shifting to foreign sources the production of capital goods and a wide range of other industrial items for foreign markets which formerly was carried out in the United States. While these are the principal reasons for such shifts, the availability of competitive export financing is an important factor in some cases.

-- Would seriously jeopardize any chance the United States might have to negotiate improvements in the international Arrangement on Guidelines for Officially Supported Export Credits to limit the increasing use of tied-aid credits. The U.S. government's effort to counter foreign tied-aid credit offers has been very modest and negotiations to limit the use of such credits have not been successful. Since the elimination of Eximbank's direct lending authority probably would further handicap U.S. efforts to counter tied-aid credits, we doubt that the U.S. negotiators would have enough of a "stick" to achieve any meaningful improvements in the Arrangement. As a result of an increasing number of tied-aid credit offers by foreign competitors involving the limited number of international projects being initiated, in October MAPI sent the attached letter to Eximbank Chairman William Draper and other Administration officials urging a more effective program to match foreign offers.

Proposed Interest Rate Subsidy for FY 1986

Since our letter to the President, the Budget for Fiscal Year 1986 was issued and the proposal to eliminate Eximbank direct lending is included. A new proposal would provide authority for an aggregate interest rate subsidy for FY 1986 not exceeding $100 million (net of application fees) to "buy down" interest rates on export loans by private lenders to the minimum rates established in the international Arrangement. While this proposal is certainly welcome and necessary in the absence of direct lending, we do not believe that it is an adequate substitute.

-- The program would limit the support for U.S. exporters' financing subsidy arrangements to only an estimated $1.8 billion in loans during FY 1986. While this is above the level of Bank direct lending in the last two fiscal years, it could be well short of requirements if the worldwide recovery continues or if some large projects (such as nuclear plants or other major projects) which are in an advanced planning stage are initiated during FY 1986.

-- The limited resources available would not enable Eximbank to counter tied-aid credit offers in any significant way except where Agency for International Development (AID) funds are available. As the experience of the past year has shown, AID is able to provide very limited support for a tied-aid credit program because (1) it does not extend assistance to most of the countries which are targets of tied-aid credit offers, and (2) its objectives, methods of operation, and funding do not lend themselves to supporting a tied-aid credit program in all but a very few of the countries in which it does extend assistance.

-- It is our understanding that most foreign customers for major projects require fixed-rate offers on financing so that they can anticipate with some degree of accuracy the total cost of the projects, and that fixed-rate offers, at Arrangement minimum interest rates, will continue to be made available from major competitor nations. Further, the application of the interest rate subsidy only to fixed-rate obligations may not draw the required export financing resources from commercial banks. (At this juncture, it appears that only the Private Export Funding Corporation [PEFCO], an Eximbank-supported lender at fixed rates, would readily enter into fixed-rate transactions on a substantial scale.) For a number of years commercial banks generally have been unwilling to extend fixed-rate loans for financing exports for periods longer than a few months, and have become much more cautious about almost all foreign lending as a result of the debt problems of a number of countries. It is our impression that the commercial banks will continue to be reluctant to enter into fixed-rate obligations. This is primarily because of the difficulty in anticipating what the cost of their funds will be when disbursements are made some months or even years after a commitment is made.

Concluding Comment

As we pointed out in our letter to the President, each proposal to reduce government expenditures must be examined carefully in the light of broad national policies. We believe that the Budget proposals with respect to Eximbank would be counterproductive in terms of the international competitive position of the United States, and the effect the proposals could have on the U.S. balance of trade and domestic production and employment.

* * *

Please let us know if MAPI can be of assistance in the committee's deliberations concerning the Export-Import Bank.

Sincerely,

Charles Stewart

President

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October 10, 1984

The Honorable William H. Draper III
Chairman and President
Export-Import Bank of the
United States
811 Vermont Avenue, N.W.
Washington, D.C. 20571

Dear Mr. Draper:

This letter expresses our concern about the lack of progress on the part of the Export-Import Bank and the Agency for International Development (AID) in developing, pursuant to P.L. 98-181, an effective program offering tied-aid ("mixed") credits which match those provided by competitors. While a fully effective matching program would of course draw on the Bank's resources, we believe prompt action is necessary. The objectives are to prevent further deterioration in the U.S. international competitive position and the loss of current and future sales by U.S. exporters, and to strengthen the bargaining position of U.S. negotiators in bringing mixed credits under more effective international discipline.

For these reasons, which are discussed in greater detail later in this letter, we recommend that:

-- Interagency review of the mixed-credit program be expedited so that a viable mixed-credit program can be included in the FY 1986 Budget.

-- The Administration seek congressional approval of, and appropriations for, a special "Mixed Credit Fund" to be used to augment the Bank's customary lending resources when it is necessary to extend extraordinary terms to match mixed credits offered by foreign competitors.

-- The Mixed Credit Fund be vested principally in Eximbank. While support from AID can be expected in some cases under the authority

enacted in 1983 in P.L. 98-181, under present circumstances AID's resources are likely to be available in only a limited number of those countries where mixed-credit offers are encountered. Further, it appears that, in general, AID's purposes and methods of planning and funding its overseas activities do not lend themselves to a tied-aid credic program.

The Need for Prompt Action

It is understandable that the Bank, faced with growing operating losses and declining reserves, without specific approval of the Congress, is reluctant to undertake an aggressive program of matching mixed credits, which could be very costly. However, because of the urgency of the matter, we believe such approval should be sought from the Congress in the next session. The United States can ill afford to delay action on this matter in view of our deteriorating balance of trade. More specifically--and more unfortunately--U.S. exporters and their employees are losing current and future orders; and sales lost for projects--some of which are quite large--initiated over the next year or so also will result in lost sales for replacement parts and capacity additions in future years.

Early action also is needed to strengthen the bargaining position of U.S. negotiators in bringing mixed credits under more effective discipline in the Arrangement. It is our impression that U.S. negotiators have little expectation that, under present circumstances, significant progress can be made in this regard in the near future. Considering the demonstrated reluctance of the Bank to aggressively extend offers on many of the projects where mixed credits are being offered by competitors, we doubt that our negotiators have enough of a "stick" to achieve meaningful changes in the Arrangement.

The Creation of a "Mixed Credit Fund"

We believe there is an immediate need for specific congressional authorization of, and appropriations for, a special "Mixed Credit Fund" which could be used to augment the Bank's customary lending resources when it is necessary to extend extraordinary terms to match mixed credits offered by competitors. The Fund could be used as an auxiliary to the Bank's other resources by providing funds to make up for income "lost" because of the concessionary terms needed to meet offers going beyond terms permitted by the Arrangement. Alternatively, such a fund could be placed with AID as an unallocated resource for supporting Eximbank in matching mixed-credit offers. Whichever approach is chosen, the funds appropriated should be sufficient to enable the Bank to sustain an aggressive matching program for several years--i.e., long enough to convince our competitors that it is in the interest of all to rein in mixed credits by concluding negotiations on an improved Arrangement.

The Limited Potential Role of AID

We believe the experience to date suggests that the lead role in such a "Mixed Credit Fund" should be vested in Eximbank. Under present statutes and procedures, AID's purposes, methods of planning and funding its overseas activities, and its methods of operation do not lend themselves to transactions in the commercial world where project financing decisions have to be made within a few weeks or months. AID's Economic Support Funds (and, more specifically, funds allocated therefrom for Commodity Import Programs) are available for very few countries where mixed-credit offers are likely to be encountered. Further, the amounts available in the other countries which could be allotted to tied-aid credits are not sufficient to provide substantial support for the generally fairly large amounts called for where such credits are being offered. In fact, it is our understanding that, for the current fiscal year, AID support probably could be expected only for transactions in Egypt and, perhaps, one or two other countries.

* * *

We realize that undertaking a substantial tied-aid credit program will represent a major, but necessary, departure from the Bank's traditional method of operation. However, we believe the United States cannot turn away from the seemingly increasing number of important overseas projects where tied-aid credits are called for.

Sincerely,

Charles Stewart

President

ccs: The Honorable George P. Shultz
Secretary of State

The Honorable Donald T. Regan
Secretary of the Treasury

The Honorable Malcolm Baldrige
Secretary of Commerce

The Honorable William E. Brock
U.S. Trade Representative

The Honorable Paul A. Volcker
Chairman of the Board of Governors
of the Federal Reserve System

The Honorable M. Peter McPherson
Administrator, Agency for
International Development

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